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GULFPORT ENERGY CORP
Form 10-K
April 01, 2002

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES AND EXCHANGE ACT OF 1934

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

OR

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

FOR THE YEAR ENDED DECEMBER 31, 2001
Commission File Number 1-10192

Gulfport Energy Corporation

(Exact name of registrant as specified in its charter)

Delaware

73-1521290

(State or other jurisdiction of
Incorporation or organization)

(IRS Employer
Identification Number)

6307 Waterford Blvd., Suite 100
Oklahoma City, Oklahoma 73118
(405) 848-8807

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

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

Not Applicable

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

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|-----------------------------------|--|
| Preferred Stock, \$0.01 par value | None |
| Common Stock, \$0.01 par value | None |

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

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Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

All shares of common and preferred stock outstanding prior to the Effective Date of the Plan of Reorganization (July 11, 1997) were canceled on the Effective Date. The number of shares of the registrant's Common Stock, \$0.01 par value, outstanding at March 31, 2002 was 10,146,566. The aggregate market value of the voting stock held by non-affiliates of Gulfport using an average trading price in December 31, 2001 was \$12,233,000.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☒ No ☐

APPLICABLE ONLY TO CORPORATE REGISTRANTS

| | |
|--|------------|
| Common Stock Issued Outstanding December 31, 2001: | 10,146,566 |
| Common Stock Issued Outstanding February 1, 2002: | 10,146,566 |

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

| | |
|------------------|--|
| Item 1. Business | |
|------------------|--|

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Description of Business

Gulfport is an independent oil and gas exploration and production company with properties located in the Louisiana Gulf Coast. Gulfport has a market enterprise value of approximately \$50.9 million dollars and generated EBITDA of \$9.6 million dollars for the twelve months ended December 31, 2001. As of December 31, 2001, the Company had 29 MMBOE proved reserves with a present value (10%) of estimated future net reserves of \$130 million dollars.

Gulfport is actively pursuing further development of its properties in order to fully exploit its reserves. The Company has a substantial portfolio of low risk developmental projects for the next several years providing the opportunity to increase production and cash flow. Gulfport's developmental program is designed to reach the Company's high impact, higher potential rate of return prospects through the penetration of several producing horizons.

Additionally, Gulfport owns 3-D seismic data, which along with the Company's technical expertise, will be used to identify exploratory prospects and test undrilled fault blocks in existing fields.

Background

Gulfport is the successor of WRT Energy Corporation ("WRT"). WRT filed for bankruptcy in February 1996. Gulfport emerged as the reorganized company in July 1997.

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Principal Oil and Gas Properties

Gulfport owns interests in a number of producing oil and gas properties located along the Louisiana Gulf Coast. The following is a map showing the locations of Gulfport's principal oil and gas properties.

(MAP OMITTED)

Gulfport serves as the operator of substantially all of the properties in which it holds a working interest with the exception of the Texaco ("Texaco" or "ChevronTexaco") well and deep rights at West Cote Blanche Bay. During 2001 Chevron acquired Texaco. The following table presents certain information as of January 1, 2002 reflecting Gulfport's net interest in its producing oil and gas properties.

| | | | | | | | | Net Proved Reserves | |
|-------------------|-------------|--------|-------|----------|-----|------------|-------|---------------------|--------|
| | | | | | | | | As of 1/1/02 | |
| Field | NRI/WI | Active | Wells | Shut-in | | Acreage(2) | | Gas | Oil |
| | | | | wells(1) | | | | | |
| | Percentages | Gross | Net | Gross | Net | Gross | Net | MBOE | MBOE |
| E Hackberry | 78.7/100 | 17 | 17 | 73 | 73 | 3,147 | 3,147 | 590 | 3,392 |
| W Hackberry | 87.5/100 | 2 | 2 | 25 | 25 | 592 | 592 | 47 | 248 |
| West Cote | | | | | | | | | |
| Blanche Bay (3) | 78.7/100 | 48 | 47 | 296 | 296 | 4,590 | 4,590 | 3,384 | 20,906 |
| Overrides/Royalty | Various | 12 | 1 | 6 | 1 | 403 | 403 | 100 | 277 |

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| | | | | | | | | |
|-------|-------|----|-----|-----|-------|-------|-------|--------|
| TOTAL | 79 | 67 | 400 | 395 | 8,732 | 8,732 | 4,121 | 24,823 |
| | ===== | | | | | | | |

- (1) The following wells produce on an intermittent basis: East Hackberry - 4; West Hackberry - 1; and West Cote Blanche Bay - 6. All of Gulfport's acreage is Developed Acreage.
- (2) Includes 1 producing well and 3 shut-in wells attributable to depths below the Rob "C" Marker ("Deep Rights"). Gulfport has a 7.45% non-operated working interest (5.84% NRI) in the Deep Rights. The Deep Rights are operated by ChevronTexaco Corporation.
- (3) In the future, Gulfport will have to plug and abandon almost 400 wellbores. Gulfport's strategy to meet this obligation is to plug at least twenty wells a year at WCBB, three at Hackberry and to invest in plugging escrow accounts. The Company continually deposits money in the West Cote Blanche Bay Escrow Account, which currently has a balance of approximately \$2.3 million dollars. Additionally, Gulfport has a \$200,000 letter of credit dedicated to the plugging operations at East Hackberry.

All of the oil and gas leases in which Gulfport owns an interest have been perpetuated by production. The operator may surrender the leases at any time by notice to the lessors, or by the cessation of production.

East Hackberry Field

(Map Omitted)

Location and Land

The East Hackberry Field is located along the western shore of Lake Calcasieu in Cameron Parish, Louisiana approximately 80 miles west of Lafayette

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and 15 miles inland from the Gulf of Mexico. In February 1994, Gulfport purchased a 100% working interest (approximately 79% average NRI) in certain producing oil and gas properties situated in the East Hackberry Field. The purchase included two separate lease blocks, the Erwin Heirs Block which is located on land originally developed by Gulf Oil Company (now ChevronTexaco Corporation), and the adjacent State Lease 50 Block which is located primarily in the shallow waters of Lake Calcasieu, originally developed by Texaco. The two lease blocks together contain 3,147 acres.

In September 1994, Gulfport sold an overriding royalty interest equal to a 50% working interest in certain producing oil and gas wells situated in the East Hackberry Field to Milam Royalty Corporation a subsidiary of J. P. Morgan and Company. In April 1999, Gulfport purchased the overriding royalty interest back from the then current owner, Queen Sand Resources, Inc. giving Gulfport a 100% working interest in the field.

Geology

The Hackberry Field is a major salt intrusive feature, elliptical in shape as opposed to a classic "dome," divided into East and West field entities by a saddle. Structurally, Gulfport's East Hackberry acreage is located on the eastern end of the Hackberry salt ridge. There are over 30 pay zones at this field. The salt intrusion trapped Oligocene through Lower Miocene rocks in a series of complex, steeply dipping fault blocks. The Camerina sand series is a prolific producer with 1-2 MMBL per well of oil potential. Gulfport's wells

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currently produce from perforations found between 5,100' and 12,200'.

Area History and Production

The East Hackberry field was discovered in 1926 by Gulf Oil Company (now ChevronTexaco Corporation) by a gravitational anomaly survey. The massive shallow salt stock presented an easily recognizable gravity anomaly indicating a productive field. Initial production began in 1927 and has continued to the present. The estimated cumulative oil and condensate production through 2002 was 111 million barrels of oil with casinghead gas production being 60 billion cubic feet of gas. There have been a total of 170 wells drilled on Gulfport's portion of the field with 17 having current daily production; three produce intermittently; 73 wells are shut-in and 4 wells have been converted to salt water disposal wells. The remaining 73 wells have been plugged and abandoned. During 2001, daily net production averaged 305 barrels of oil with a limited amount of net gas production.

Facilities

Gulfport has land-based production and processing facilities located at the East Hackberry Field. The facility is comprised of two dehydrating units and four disposal pumps. Gulfport also has a field office that serves both the East and West Hackberry fields. Due to the high cost of gas, Gulfport converted the Erwin Heirs Block from gas lift to other lifting methods in 2000 and returned the rental compressors. Gulfport reactivated three pumping units from inventory and purchased an additional surface unit and two electric submersible pumps.

2001 Activity

Gulfport began a program to periodically test shut-in wells on the State Lease 50 portion of the East Hackberry Field. Additionally, Gulfport reactivated a satellite tank battery at the State Lease 50 portion of East Hackberry. The Company also conducted several remedial operations that included

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repairing holes in tubing and casing, replaced parted tubing and cleaned out salt water disposal wells.

West Hackberry Field

Location and Land

The West Hackberry Field is located on land and is five miles West of Lake Calcasieu in Cameron Parish, Louisiana approximately 85 miles west of Lafayette and 15 miles inland from the Gulf of Mexico. In November 1992, Gulfport purchased a 100% working interest (approximately 80% average NRI, subsequently increased to approximately 87.5% NRI) in 592 acres within the West Hackberry Field.

Gulfport's leases at West Hackberry are located within two miles of one of the United States' Department of Energy's Strategic Petroleum Reserves. The West Hackberry storage facility occupies 525 acres and has capacity to store 222 million barrels of oil in underground salt caverns.

Geology

Structurally, Gulfport's West Hackberry acreage is located on the western end of the Hackberry salt ridge. (See graphic above.) There are over 30 pay zones at this field. West Hackberry consists of a series of fault-bounded traps in the Oligocene-age Vincent and Keough sands associated with the Hackberry Salt

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Ridge. Recoveries from these thick, porous, water-drive reservoirs have resulted in per well cumulatives of almost 700 BOE.

Area History and Production

The first discovery well at West Hackberry was drilled in 1938 and was developed by Superior Oil Company (now Exxon-Mobil Corporation) between 1938 and 1988. The estimated cumulative oil and condensate production through 2001 was 170 million barrels of oil with casinghead gas production of 120 billion cubic feet of gas. There have been 36 wells drilled to date on Gulfport's portion of West Hackberry and currently 2 are producing, 25 are shut-in and 1 well has been converted to a saltwater disposal well. The remaining 8 wells have been plugged and abandoned. During 2001, daily net production averaged 40 barrels of oil and a limited amount of gas.

Facilities

Gulfport has land-based production and processing facilities located at the West Hackberry field. Gulfport has two dehydrating units and one disposal pump. During 2000, due to the high cost of gas, Gulfport converted the West Hackberry field from gas lift to other lifting methods. The Company reactivated two pumping units from inventory and sold a company owned compressor. Gulfport maintains a field office that serves both the East and West Hackberry fields.

2001 Activity

Gulfport conducted several remedial operations that included repairing holes in tubing and casing and replacing parted tubing.

West Cote Blanche Bay Field

(Map Omitted) (Type Log Omitted)

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Location and Land

The West Cote Blanche Bay (WCBB) Field lies approximately five miles off the coast of Louisiana primarily in St. Mary Parish in a shallow bay, with water depths averaging eight to ten feet. Gulfport originally acquired from Texaco a 6.25% working interest in all zones in the WCBB field in July 1988. In April 1995, Gulfport completed the purchase of an additional 43.75% working interest in the WCBB field from an affiliate of Benton Oil and Gas Company and two affiliates of Tenneco, Inc. as to those rights lying above the base of the Rob "C" marker, located at approximately 10,500'. The sellers retained their interests in all depths below the base of the Rob "C" marker. In July, 1997 Gulfport acquired the remaining 50% working interest in the WCBB field in depths above the Rob "C" marker from Texaco and became the operator of the shallow rights in the field. In 1999 Gulfport exercised a preferential right to purchase an additional 1.00% working interest in the rights below the Rob "C" marker. Currently Gulfport owns a 100% working interest (78.66% NRI) and is the operator in the depths above the Rob "C" marker and owns a 7.45% non-operated working interest (5.84% NRI) in depths below the Rob "C" marker. Texaco is the operator below the base of the Rob "C" marker. Gulfport's leasehold at WCBB covers a portion of Louisiana State Lease 340 and contains 4,590 acres.

Geology

WCBB overlies one of the largest salt dome structures on the Gulf Coast. The field is characterized by a piercement salt dome, which created traps from the Pleistocene through the Miocene. The relative movements affected deposition

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and created a complex system of fault traps. The compensating fault sets generally trend NW-SE and are intersected by sets having a major radial component. Later-stage movement caused extension over the dome and a large graben system was formed.

There are over 100 distinct sandstone reservoirs recognized throughout most of the field and nearly 200 major and minor discrete intervals have been tested. Within the over 800 wellbores that have been drilled to date in the field, over 4,000 potential zones have been penetrated. These sands are highly porous and permeable reservoirs primarily with a strong water drive.

Area History and Production

Texaco drilled the discovery well in 1940 based on a seismic and gravitational anomaly. WCBB was subsequently developed on an even 160-acre pattern for much of the remainder of the decade. Developmental drilling continued and reached its peak in the 1970's when over 300 of the over 800 total wells were drilled in the field. Of the over 800 wells drilled, only 80 were dry holes and many of these were capable of hydrocarbon production. As a result, the field has an historic success rate of over 90% for all wells drilled. The cumulative gross production for the average producer in the field was 237 MBO, with over 100 of those wells (14% of total wells) producing in excess of 500 MBO. As of January 1, 2002, field cumulative gross production was 191 MMBO and 232.5 BCF of gas.

There have been 871 wells drilled in WCBB. Of these, 48 are currently producing, 303 are shut-in and five have been converted to salt water disposal wells. The balance of the wells (or 515) have been plugged and abandoned. During 2001, Gulfport's net current daily production averaged 1,280 barrels of oil, 399 MCF of gas and 11,881 barrels of water at WCBB.

In 1991, Texaco conducted a 70 square mile 3-D seismic survey with 1,100 shot points per mile that processed out 100 fold. In 1993, an undershoot survey around the crest and production facilities was added. Gulfport owns the rights

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to the seismic data. In December of 1999 Gulfport completed the reprocessing of the seismic data and its technical staff developed prospects from the data. The reprocessed data will enable Gulfport to identify prospects in areas of the field that would otherwise remain obscure.

Facilities

Gulfport owns and operates a production facility at WCBB. The platform for the production facility stretches over a mile and is equipped with a 30 MMCF capacity dehydrating system and three 225 horsepower triplex saltwater disposal pumps. The Company has an ongoing program to modernize and service the production facilities at WCBB. During 2001, Gulfport installed two new gas compressors totaling 3,000 horsepower into full time service at the field replacing three outdated inefficient compressors. The new compressors increased efficiency and, together with a new header valve the Company installed at one of the tank batteries, reduced gas usage in the field by 50%. Other work performed on the facility during 2001 included repairing or replacing flow lines and gas lift lines. Gulfport also back flowed and cleaned sand from the five saltwater disposal wells at West Cote Blanche Bay, which allows the wells to handle a higher volume of water. The Company generates cash flow by handling other companies' gas and oil and disposing of their saltwater through the facility for a fee. In 2001, Gulfport earned an average of \$33,524 a month from third party facility charges.

2001 Activity

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During April 2001, Gulfport finished the seven well drilling program it had commenced in January of 2001. The Company successfully drilled, completed and is currently producing six intermediate depth wells, with total depths averaging approximately 9,000' and one shallow well, with a total depth of 2,500'. These wells found significant oil and gas deposits in multiple targets ranging from relatively low risk proven undeveloped objectives to higher potential exploratory targets. Gulfport feels that by taking most future wells to a depth of 9,000' there will be an increased chance of converting reserves currently classified as possible and probable to proved.

Gulfport continued to meet its plugging obligation and plugged 26 wells at WCBB during 2001 at an average cost of \$18,400 per well. The Company has plugged 90 wells at WCBB since it began its plugging program in 1997.

2002 Field Activity

West Cote Blanche Bay

In 2002, Gulfport continues to use the reprocessed 3-D seismic data to identify and confirm intermediate and shallow prospects at WCBB. The Company plans to begin a ten well drilling program in the second quarter of 2002. The ten well program will consist of eight developmental intermediate depth wells, one developmental shallow horizontal well and one exploratory shallow well. The Company anticipates that these wells will access significant oil and gas deposits with most of the wells having multiple targets ranging from relatively low risk proven undeveloped objectives to higher potential exploratory targets. Gulfport also anticipates several recompletions and workovers and will continue to fulfill its plugging obligations during 2002.

East & West Hackberry

Gulfport will continue testing shut-in wells and putting them on permanent or intermittent production as results warrant. The Company also plans several recompletion projects for the Erwin and State Lease 50 portion of East

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Hackberry. Gulfport is in the process of generating projects in the West Hackberry field.

Texaco Operated Well

In June of 1999, Gulfport executed a sublease in favor of Texaco of an approximate 72 acre block below the base of the 8 Sand, located at approximately 9,060 feet, at WCBB and reserved a 25% back-in working interest after the proceeds of the well totaled \$1,000,000. The well paid out in December 1999.

Overriding Royalty Interests

Gulfport also owns overriding royalty interests in an additional 14 producing oil and gas wells lying in four fields.

When Gulfport sold its interest in the Bayou Penchant Field to Castex Energy 1996 Limited Partnership effective April 1, 1998, Gulfport retained a 10% overriding royalty interest in this field. The Bayou Penchant field is located in Terrebonne Parish, Louisiana and the 2001 average daily gross production from five producing wells was 1,250 gross MCF of gas.

Gulfport also owns a 2.5% overriding royalty interest in three producing wells at the Napoleonville Field retained when Gulfport sold its interest to Plymouth Operating Company in 1998. The Napoleonville field is located in

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Assumption Parish, Louisiana and averaged 150 gross barrels of oil per day in 2001.

Additionally, Gulfport owns a net profits interest in one producing well and all the leasehold rights in the South Atchafalaya Bay Field located in St. Mary Parish, Louisiana. This well was placed on production in late 1999. This interest provided over \$21,000 in net revenue to Gulfport in 2001.

The land occupied by a warehouse owned by Gulfport in Lafayette, LA covers approximately one acre. The mineral rights underlying the building were included in a unit drilled by Newfield Exploration Company. In April 2000, effective June 1999, Gulfport backed into a working interest in the Gladys Garber #1 well. During 2001, the well generated over \$62,000 net to Gulfport's interest.

Fee Minerals and Surface Interest

Gulfport owns 230 net acres of fee minerals and surface interest adjacent to its West Hackberry Field in Cameron Parish, Louisiana. This property currently contains six producing wells.

Castex Energy 1996 Limited Partnership

Castex Back-In

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

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| Field | Parish | Working Interest |
|----------------|------------|------------------|
| Bayou Penchant | Terrebonne | 3.125% |
| Bayou Pigeon | Iberia | 6.250% |
| Deer Island | Terrebonne | 6.250% |
| Golden Meadow | Lafourche | 3.125% |

In addition to the producing wells and associated leasehold rights, Gulfport has prepaid the drilling and completion costs of three new wells.

Other Interests

Litigation Trust

Gulfport owns a 12% interest in the Trust (the "Litigation Trust") that was established in WRT's bankruptcy to pursue litigation connected with WRT.

The Litigation Trust filed approximately 400 preference actions and several substantive actions alleging fraud, malpractice and other wrongdoings. At this time, Gulfport cannot estimate what the potential future recovery from the litigation will be.

Oil and Gas Marketing

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Gulfport sells its oil and gas at the wellhead and does not refine petroleum products. Other than normal production facilities, Gulfport does not own an interest in any bulk storage facilities or pipelines. As is customary in the industry, Gulfport sells its production in any one area to relatively few purchasers, including transmission companies that have pipelines near Gulfport's producing wells. Gas purchase contracts are generally on a short-term "spot market" basis and usually contain provisions by which the prices and delivery quantities for future deliveries will be determined. The majority of Gulfport's crude oil production in 2001 was sold on contracts based on the average closing price on NYMEX for each trading day during the month of delivery.

During 2001, oil sales to Gulfmark Energy Inc. accounted for 86% of Gulfport's oil sales. Gulfport had no other purchasers that accounted for greater than 10% of its oil sales. Gulfport had no gas purchasers that accounted for more than 10% of its total sales.

Competition and Markets

Availability of Markets. The availability of a ready market for any oil and/or gas produced by Gulfport depends on numerous factors beyond the control of management, including but not limited to, the extent of domestic production and imports of oil, the proximity and capacity of gas pipelines, the availability of skilled labor, materials and equipment, the effect of state and federal regulation of oil and gas production and federal regulation of gas sold in interstate commerce. Oil and gas produced by Gulfport in Louisiana is sold to various purchasers who service the areas where Gulfport's wells are located. Gulfport's wells are not subject to any agreements that would prevent Gulfport from either selling its production on the spot market or committing such gas to a long-term contract; however, there can be no assurance that Gulfport will continue to have ready access to suitable markets for its future oil and gas production.

Impact of Energy Price Changes. Oil and gas prices can be extremely volatile and are subject to substantial seasonal, political and other fluctuations. The prices at which oil and gas produced by Gulfport may be sold

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is uncertain and it is possible that under some market conditions the production and sale of oil and gas from some or all of its properties may not be economical. The availability of a ready market for oil and gas and the prices obtained for such oil and gas, depend upon numerous factors beyond the control of Gulfport, including competition from other oil and gas suppliers and national and international economic and political developments. Because of all of the factors influencing the price of oil and gas, it is impossible to accurately predict future prices.

Environmental Regulation

Operations of Gulfport are subject to numerous federal, state and local laws and regulations governing environmental protection. Over the last several years, state and federal environmental laws and regulations have become more stringent and may continue to become more stringent in the future. These laws and regulations may affect Gulfport's operations and costs as a result of their affect on oil and gas development, exploration, and production operations. It is not anticipated that Gulfport will be required in the near future to expend amounts that are material in relation to its total capital expenditures program by reason of environmental laws and regulations, but inasmuch as such laws and regulations are frequently changed, Gulfport is unable to predict the ultimate cost of compliance.

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Operational Hazards and Insurance

Gulfport's operations are subject to all of the risks normally incident to the production of oil and gas, including blowouts, cratering, pipe failure, casing collapse, oil spills and fires, each of which could result in severe damage to or destruction of oil and gas wells, production facilities or other property, or injury to persons. The energy business is also subject to environmental hazards, such as oil spills, gas leaks, and ruptures and discharge of toxic substances or gases that could expose Gulfport to substantial liability due to pollution and other environmental damage. Although Gulfport maintains insurance coverage considered to be customary in the industry for a company its size, it is not fully insured against certain of these risks, either because such insurance is not available or because of high premium costs. The occurrence of a significant event that is not fully insured against could have a material adverse effect on Gulfport's financial position.

Headquarters and Other Facilities

Gulfport leases office space in Oklahoma City, Oklahoma under a lease covering approximately 7,000 square feet. The monthly rent is approximately \$13,000.

In 1996, Gulfport purchased a building in Lafayette, Louisiana to be used as Gulfport's Louisiana headquarters. The 16 year-old building contains 12,480 total square feet with 8,180 square feet of finished office area and 6,300 square feet of clear span warehouse area. The mortgage balance was approximately \$163,000 as of January 1, 2002 with an estimated fair market value of \$350,000. This building allows Gulfport to provide office space for Louisiana personnel, have access to meeting space close to the fields and to maintain a corporate presence in Louisiana.

Employees

At December 31, 2001 Gulfport had 13 employees. A Louisiana well servicing company serves as contract operator of the fields and provides all necessary field personnel.

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Item 2. Properties

Oil & Gas Reserves

The oil and gas reserve information set forth below represents estimates as prepared by the independent engineering firm of Netherland, Sewell & Associates, Inc. Reserve engineering is a subjective process of estimating volumes of economically recoverable oil and gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation. As a result, the estimates of different engineers often vary. In addition, the results of drilling, testing, and production may justify revisions of such estimates. Accordingly, reserve estimates often differ from the quantities of oil and gas that are ultimately recovered. Estimates of economically recoverable oil and gas and of future net revenues are based on a number of variables and assumptions, all of which may vary from actual results, including geologic interpretation, prices, and future production rates and costs.

The following table sets forth estimates of the proved oil and gas reserves of Gulfport at December 31, 2001, as estimated by Netherland, Sewell & Associates, an independent engineering firm.

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| | January 1, 2002 | | |
|---|-----------------|----------------|---------------|
| Proved Reserves | Developed | Underdeveloped | Total |
| Oil (MBBLS) | 3,745 | 21,078 | 24,823 |
| Gas (MMCF) | 3,499 | 21,226 | 24,725 |
| MBOE | 4,328 | 24,616 | 28,944 |
| Year-end present value 10% of estimated future net revenue | \$22,027,000 | \$108,370,200 | \$130,397,200 |

Total proved reserves increased to 28,944 MBOE at January 1, 2002 from 25,129 at January 1, 2001. This increase in reserves is mainly attributable to the Company's drilling activity during 2001 as well as the mapping of additional proved undeveloped locations.

The estimated future net revenues set forth above were determined by using reserve quantities of proved reserves and the periods in which they are expected to be developed and produced based on economic conditions prevailing at December 31, 2001. The estimated future production is priced at December 31, 2001 without escalation using \$16.75 per BBL and \$2.65 per MCF, adjusted by lease for transportation fees and regional price differentials.

In compliance with federal law, Gulfport files annual reports with the Energy Information Agency of the U.S. Department of Energy with respect to its production of oil and gas during each calendar year and its estimated oil and gas reserves at the end of each year.

Production, Prices, and Production Costs

The following is a table and graph of Gulfport's net production in 2001.

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| | Year Ended December 31, | | |
|------------------------------------|-------------------------|---------|---------|
| | 2001 | 2000 | 1999 |
| | ---- | ---- | ---- |
| Production Volumes: | | | |
| Oil (MBBLS) | 595 | 530 | 576 |
| Gas (MMCF) | 71 | 83 | 107 |
| Oil Equivalents (MBOE) | 607 | 544 | 594 |
| Average Prices | | | |
| Oil (per BBL) | \$25.25 | \$29.76 | \$16.86 |
| Gas (per MCF) | \$ 6.02 | \$ 4.04 | \$ 2.83 |
| Oil Equivalents (per MBOE) | \$25.48 | \$29.62 | \$16.86 |
| Average Production Costs (per BOE) | \$ 7.85 | \$ 9.35 | \$ 6.18 |
| Average Production Taxes (per BOE) | \$ 2.88 | \$ 3.02 | \$ 1.64 |

(Graph Omitted)

Drilling and Recompletion Activities

The following table contains data with respect to certain of Gulfport's field operations during the years ended December 31, 2001, 2000 and 1999.

| | | |
|------|------|------|
| 2001 | 2000 | 1999 |
|------|------|------|

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| | Gross | Net | Gross | Net | Gross | Net |
|--|-------|-----|-------|-----|-------|-----|
| | ----- | | ----- | | ----- | |
| Recompletions, Sidetracks and Deepenings: | | | | | | |
| Oil | 6 | 6 | 4 | 4 | 15 | 15 |
| Gas | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Productive | 0 | 0 | 1 | 1 | 12 | 12 |
| | ----- | | ----- | | ----- | |
| TOTAL: | 6 | 6 | 5 | 5 | 27 | 27 |
| | ===== | | ===== | | ===== | |
| Development Wells: | | | | | | |
| Oil | 6 | 6 | 2 | 2 | 5 | 5 |
| Gas | 0 | 0 | 1 | 1 | 0 | 0 |
| Non-Productive | 0 | 0 | 1 | 1 | 1 | 1 |
| | ----- | | ----- | | ----- | |
| TOTAL: | 6 | 6 | 4 | 4 | 6 | 6 |
| | ===== | | ===== | | ===== | |
| Exploratory Wells: | | | | | | |
| Oil | 1 | 1 | 0 | 0 | 0 | 0 |
| Gas | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Productive | 0 | 0 | 0 | 0 | 0 | 0 |
| | ----- | | ----- | | ----- | |
| TOTAL: | 1 | 1 | 0 | 0 | 0 | 0 |
| | ===== | | ===== | | ===== | |

Title to Oil and Gas Properties

It is customary in the oil and gas industry to make only a cursory review of title to undeveloped oil and gas leases at the time they are acquired and to obtain more extensive title examinations when acquiring producing properties. In future acquisitions, Gulfport will conduct title examinations on material portions of such properties in a manner generally consistent with industry practice. Certain of Gulfport's oil and gas properties may be subject to title defects, encumbrances, easements, servitudes or other restrictions, none of which, in management's opinion, will in the aggregate materially restrict Gulfport's operations.

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Item 3. Legal Proceedings

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

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

On November 28, 2001 the Board of Directors nominated five persons to serve on the Board of Gulfport. On December 30, 2001 the holders of a majority of the outstanding shares of Gulfport's common stock executed a written consent electing the five nominated persons as directors of Gulfport. Each director will serve until the next annual meeting or until he is succeeded by another qualified director who has been elected.

The annual shareholder meeting for Gulfport for the year ended December 31, 2001 has been scheduled for April 15, 2002.

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Item 4a. Executive Officers of the Registrant.

The officers of Gulfport are as follows:

| Name ---- | Age --- | Position ----- |
|------------------|------------|--|
| Mike Liddell | 48 | Chairman of the Board, Chief Executive Officer, President and Director |
| Michael G. Moore | 45 | Vice President and Chief Financial Officer |
| Lisa Holbrook | 31 | Vice President, General Counsel and Secretary |

Mike Liddell has served as a director of Gulfport since July 11, 1997, as Chief Executive Officer since April 28, 1998 and as Chairman of the Board since July 28, 1998. Mr. Liddell has served as President of Gulfport since July 2000. In addition, Mr. Liddell served as Chief Executive Officer of DLB from October 1994 to April 28, 1998, and as a director of DLB from 1991 through April 1998. From 1991 to 1994, Mr. Liddell was President of DLB. From 1979 to 1991, he was President and Chief Executive Officer of DLB Energy. He received a B.S. degree in education from Oklahoma State University. He is the brother of Mickey Liddell.

Michael G. Moore has served as Vice President and Chief Financial Officer since July 2000. From May 1998 through July 2000, Mr. Moore served as Vice President and Chief Financial Officer of Indian Oil Company. From September 1995 through May 1998, Mr. Moore served as Controller of DLB Oil & Gas, Inc. Prior to that, Mr. Moore served as Controller of LEDCO, Inc., a Houston based gas marketing company. Mr. Moore received both his B.B.A degree in finance and his M.B.A. from the University of Central Oklahoma.

Lisa Holbrook has served as Vice President and Secretary of Gulfport since November 5, 1999, and as General Counsel since April 28, 1998. In addition, Ms. Holbrook served as Assistant General Counsel of DLB until April 1998. In 1996, Ms. Holbrook received her J.D. from Oklahoma City University Law School where she graduated with highest distinction.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Gulfport's Common Stock is traded on the NASD OTC Bulletin Board under the symbol GPOR. The following table sets forth the high and low sales prices for the Common Stock in each quarter:

| YEAR ENDED DECEMBER 31, 2001 ----- | LOW ----- | HIGH ----- |
|---------------------------------------|--------------|---------------|
| First Quarter | \$3.875 | \$4.500 |
| Second Quarter | \$4.000 | \$6.250 |
| Third Quarter | \$4.000 | \$4.600 |
| Fourth Quarter | \$4.250 | \$4.600 |

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Holders of Record

At the close of business on February 1, 2002 there were 10,146,566 shares of Common Stock outstanding held by 363 shareholders of record.

Dividend Policy

Gulfport has never paid dividends on the Common Stock. Gulfport currently intends to retain all earnings to fund its operations. Therefore, Gulfport does not intend to pay any cash dividends on the Common Stock in the foreseeable future.

Item 6. Selected Financial Data

As a result of the Reorganization Case and Plan, which was consummated and became effective on July 11, 1997, Gulfport was required to present its financial statements pursuant to fresh start reporting standards. Accordingly, the financial statements of Gulfport are not comparable to the financial statements of WRT. However, in the case of the statement of operations, the Company believes that comments comparing calendar years are appropriate in order to provide a more meaningful understanding of Gulfport's operations.

The following selected financial data as of and for the years ended December 31, 2001, 2000, 1999, 1998 and as of and for the five months 21 days ended December 31, 1997, for Gulfport and for the six months and 10 days ended July 10, 1997, for the Predecessor Company are derived from the financial statements of Gulfport included elsewhere in the Annual Report. The financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements of Gulfport and the notes thereto included elsewhere in this Annual Report.

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| | Reorganized Company | | | | Predecessor Company | |
|---|---------------------|--|----------|----------|---|--|
| | | Year ended December 31, | | | July 11, 1997 to December 31, 1997 | Six Month 10 Days July 10, 1997 |
| | 2001 | 2000 | 1999 | 1998 | | |
| Statement of Operation Data | | | | | | |
| | | (in thousands, except per share amounts) | | | | |
| Oil and gas sales | \$15,458 | \$16,118 | \$10,018 | \$ 8,298 | \$ 9,456 | \$ 10,138 |
| Operating expenses | 11,929 | 11,635 | 9,978 | 66,415 | 11,478 | 11,002 |
| Net income (loss) from operations | 3,529 | 4,483 | 40 | (58,117) | (2,022) | (864) |
| Interest expense | 381 | 596 | 934 | 1,534 | 727 | 1,106 |
| Proceeds for litigation trust | - | - | 1,342 | - | - | - |
| Reorganized cost | - | - | - | - | - | (7,771) |
| Net income (loss) before dividends on preferred stock an extraordinary item | 5,417 | 4,459 | 641 | (59,109) | (1,713) | (9,615) |
| Extraordinary item | - | - | - | - | - | 88,723 |

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| | | | | | | |
|---|----------|----------|----------|----------|----------|----------|
| Miscellaneous Income | 1,921 | - | - | - | - | - |
| Net income (loss) before dividends on preferred stock | 5,417 | 4,459 | 641 | (59,109) | (1,713) | 79,108 |
| Dividends on preferred stock | - | - | - | - | - | (1,510) |
| Net income (loss) available to common stock | 5,417 | 4,459 | 641 | (59,109) | (1,713) | 77,59 |
| Earnings (loss) per common and common share equivalent | 0.53 | 0.44 | 0.13 | (72.35) | (3.88) | N/A |
| Average common and common equivalent shares outstanding | 10,147 | 10,145 | 5,120 | 817 | 442 | 9,539 |
| Capital expenditures | \$12,761 | \$ 6,658 | \$ 7,147 | \$ 991 | \$ 5,644 | \$ 2,562 |

| | 2001 | 2000 | Reorganized Company | | 1997 |
|------------------------------------|------------|----------|---------------------|------------|-----------|
| | ----- | ----- | ----- | ----- | ----- |
| Balance Sheet Data | | | | | |
| Working capital (deficit) | \$ (4,171) | \$ 132 | \$ (1,352) | \$ (3,204) | \$ (719) |
| Property, plant and equipment, net | 35,723 | 26,692 | 23,469 | 19,990 | 81,507 |
| Total assets | 40,892 | 36,178 | 33,484 | 27,568 | 92,346 |
| Long term debt | 143 | 301 | 179 | 381 | 13,528 |
| Shareholders' equity (deficit) | \$33,992 | \$28,573 | \$24,114 | \$ 18,503 | \$ 70,280 |

(1) Operating expenses for 1998 include non-cash charges of \$50,131,000 for impairment of oil and gas properties, \$271,000 for abandonment of long-lived assets and a \$244,000 provision for doubtful accounts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Company's financial condition and results of operations is based in part on the financial statements and the notes thereto included elsewhere in this Annual Report and should be read in conjunction therewith.

Credit Facilities

On July 11, 1997 Gulfport entered into a \$15,000,000 credit facility with ING (U.S.) Capital Corporation. During 1998 and 1999, there were two amendments to the facility and the maturity date was reset to June 30, 2000. On June 28, 2000, the Company repaid in full its credit facility at ING and established a new credit facility at Bank of Oklahoma ("BOK"). Gulfport was advanced \$1.6 million on this new facility, which called for interest payments to be made

monthly in addition to twelve monthly principal payments of \$100,000, with the remaining unpaid balance due on August 31, 2001. On March 22, 2001, Gulfport executed a new note with BOK increasing the availability to \$1,760,000, increasing the monthly payments slightly to \$110,000 beginning July 1, 2001 and extending the maturity date to October 1, 2002. This new note replaces the original BOK note dated June 28, 2000.

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On May 22, 2001, the Company entered in to a revolving line of credit agreement with Gulfport Funding, LLC, ("Gulfport Funding") which has ownership in common with the Company. Under the terms of the agreement, the Company may borrow up to \$3,000,000, with borrowed amounts bearing interest at Bank of America Prime Rate plus 4%. All outstanding principal amounts along with accrued interest are due on February 22, 2002. The Company paid a facility commitment fee of \$60,000 in connection with this line of credit. This fee will be amortized over the life of the agreement. As of December 31, 2001, the Company borrowed \$3,000,000 available under this line.

In accordance with the revolving credit agreement, the Company issued 108,625 warrants to CD Holdings, LLC. The exercise price of these warrants was established as the average closing price of the Company's common stock for the five days following the issuance of the warrants. The warrant agreement provides for pro-rata adjustments to the number of warrants granted if the Company at any time increases the number of outstanding shares or otherwise adjusts its capitalization.

Accounting Change

Before July 11, 1997, Gulfport used the successful efforts method for reporting oil and gas operations. On July 11, 1997, Gulfport converted to the full cost pool method of accounting for its oil and gas operations.

Due to the restating of property values to comply with fresh start accounting and the conversion from the successful efforts method to the full cost pool method for reporting oil and gas operations as of July 1997, comparison of depreciation, depletion, and amortization expense for the years ended December 31, 2001, 2000, 1999 and 1998, with prior years will not be meaningful.

Results of Operations

The markets for oil and gas have historically been, and will continue to be, volatile. Prices for oil and gas may fluctuate in response to relatively minor changes in supply and demand, market uncertainty and a variety of factors beyond the control of Gulfport. Set forth in the table below are the average prices received by the Company and production volumes during the periods indicated.

| | Year Ended December 31, | | |
|------------------------------------|-------------------------|---------|---------|
| | 2001 | 2000 | 1999 |
| | ---- | ---- | ---- |
| Production Volumes: | | | |
| Oil (MBBLS) | 595 | 530 | 576 |
| Gas (MMCF) | 71 | 83 | 107 |
| Oil Equivalents (MBOE) | 607 | 544 | 594 |
| Average Prices: | | | |
| Oil (per BBL) | \$25.50 | \$29.76 | \$16.86 |
| Gas (per MCF) | \$ 4.20 | \$ 4.04 | \$ 2.83 |
| Oil Equivalents (per MBOE) | \$25.48 | \$29.62 | \$16.86 |
| Average Production Costs (per BOE) | \$ 7.85 | \$ 9.35 | \$ 6.18 |
| Average Production Taxes (per BOE) | \$ 2.88 | \$ 3.02 | \$ 1.64 |

Comparison of Years Ended December 31, 2001 and 2000

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Gulfport reported net income attributable to common stock of \$5,417,000 for the year ended December 31, 2001, as compared with \$4,459,000 for the year ended December 31, 2000. The increase in earnings attributable to common stock of \$958,000 was due to gains recorded during 2001 on the settlement of disputed amounts.

Oil and Gas Revenues. For the year ended December 31, 2001 Gulfport reported oil and gas revenues of \$15,458,000, a 4% decrease from revenues of \$16,118,000 in 2000. This \$660,000 decrease in revenues is attributable to a 14% decrease in prices per BOE to \$25.50 for the year ended December 31, 2001 as compared to \$29.76 for the same period in 2000. This decrease in revenues due to

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prices was primarily offset by an increase in total BOE's produced and sold resulting from the successful completion of the Company's 2001 drilling program initiated in January 2001.

Operating Expenses Including Production Taxes. Total lease operating expenses decreased \$215,000 to \$6,517,000 for the year ended December 31, 2001 as compared to \$6,732,000 for the same period in 2000. This decrease was primarily attributable to a reduction in gas lift costs for 2001 as compared to the same period in 2000.

General and Administrative Expenses. Net General and administrative expenses increased only slightly by \$82,000 or 5% to \$1,634,000 for the year ended December 31, 2001 from \$1,552,000 for the same period 2000. This increase was due primarily to fees associated with consultations with the Company's financial advisors. In addition, due to an increased number of employees, Gulfport recognized increased levels of salaries and benefits expense for the year ended December 31, 2001 as compared to the same period in 2000. These increases were completely offset however by administrative reimbursements from related party's companies.

Interest Expense. Interest expense decreased by \$215,000 or 36% to \$381,000 for the year ended December 31, 2001 from \$596,000 for the same period in 2000. This decrease was due to the settlement of disputed amounts with a third party. Prior to the settlement, Gulfport was accruing approximately \$25,000 per month in interest expense.

Litigation Trust. No revenues were received from the Litigation Trust for the comparable periods in 2001 or 2000.

Other changes in income for the year ended December 31, 2001 as compared to the year ended December 31, 2000 were attributable to the following factors:

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization expense was \$3,778,000 for the year ended December 31, 2001, consisting of \$3,512,000 in depletion on oil and gas properties, \$218,000 in depreciation of other property and equipment and \$48,000 in amortization expense. This is a 13% increase when compared to the 2000 depreciation, depletion and amortization expense of \$3,351,000. This increase is due primarily to an increase in production for the year ended December 31, 2001 to 607 MBOE as compared to 544 MBOE for the same period in 2000.

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Income Taxes. As of December 31, 2001, the Company had a net operating loss carryforward of approximately \$83 million, in addition to numerous timing differences which gave rise to a deferred tax asset of approximately \$47 million, which was fully reserved by a valuation allowance at that date. Utilization of net operating loss carryforwards and other timing differences

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will be recognized as a reduction in income tax expense in the year utilized. A current tax provision of \$2.17 million was provided for the year ended 2001, which was fully offset by an equal income tax benefit due to operating loss carryforwards and other deferred tax assets.

Gain on Settlement of Disputed Amounts. Other changes in income for the period ended December 31, 2001 included \$1.9 million of non-recurring income related to the settlement of disputed amounts. During the second quarter of 2001, the Company reached a settlement with Texaco Exploration and Production, Inc. ("Texaco") regarding previously disputed amounts, some of which date back to periods which were prior to the Company's reorganization. The Company's net gain resulting from this settlement was \$754,000. Also included on "Gain on Settlement of Disputed Amounts" for the year ended December 31, 2001, were items previously recorded as accounts payable totaling \$1,167,000 which were also settled or had expired by December 31, 2001. Included in this total were certain tax claims of \$372,000 as discussed in Note 6 to the Financial Statements, as well as \$795,000 in funds which the Company had previously classified as accounts payable at December 31, 2000 because it believed these funds exceeded its share of revenues on properties which it owns.

Comparison of Years Ended December 31, 2000 and 1999

Gulfport reported net income attributable to common stock of \$4,459,000 for the year ended December 31, 2000, as compared with \$641,000 for the year ended December 31, 1999. The increase in earnings attributable to common stock of \$3,818,000 was due primarily to a significant increase in average oil and gas prices in 2000.

Oil and Gas Revenues. For the year ended December 31, 2000, Gulfport reported oil and gas revenues of \$16,118,000, a 61% increase from revenues of \$10,018,000 in 1999. This \$6,100,000 increase in revenues is attributable to a 76% increase in prices per BOE to \$29.76 for the year ended December 31, 2000 as compared to \$16.86 for the same period in 1999. This increase in revenues was partially offset by a slight reduction in total BOE's produced and sold due to natural production declines during the year.

Operating Expenses Including Production Taxes. Total lease operating expenses increased \$2,092,000 to \$6,732,000 for the year ended December 31, 2000 as compared to \$4,640,000 for the same period in 1999. This increase was partially attributable to a \$1,028,000 increase in gas lift costs to \$1,555,000 for the year ended 2000 from \$528,000 for the same period in 1999. This increase in gas lift costs is attributable to the increased gas prices for 2000 as compared to 1999 as well as increase in gas usage related to an increased number of producing wells brought online in 2000. In addition, the increase in operating expenses was also due in part to an approximately \$763,000 increase in production taxes for year ended 2000 as a result of increased revenues from higher oil and gas prices.

General and Administrative Expenses. General and administrative expenses decreased by \$171,000 or 10% to \$1,552,000 for the year ended December 31, 2000 from \$1,723,000 for the same period 1999. This decrease was due primarily to Gulfport's continuing efforts to reduce overall general and administrative costs.

Interest Expense. Interest expense decreased by \$338,000 or 36% to \$596,000 for the year ended December 31, 2000 from \$934,000 for the same period in 1999. This decrease was due to a reduction in Gulfport's interest bearing debt of \$1.9 million.

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Litigation Trust. In 1999, the Company received proceeds of \$1,342,000 from the Trust. Since the Company had no basis in the Litigation Trust, the Company recognized the entire proceeds of \$1,342,000 as income in the month in which it was received. No revenues were received from the Litigation Trust for the comparable period in 2000.

Other changes in income for the year ended December 31, 2000 as compared to the year ended December 31, 1999 were attributable to the following factors:

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization expense was \$3,351,000 for the year ended December 31, 2000, consisting of \$3,126,000 in depletion on oil and gas properties, \$209,000 in depreciation of other property and equipment and \$16,000 in amortization expense. This is a 7% decrease when compared to the 1999 depreciation, depletion and amortization expense of \$3,615,000. This decrease is due primarily to a reduction in total BOE's produced for the year ended December 31, 2000 as compared to the same period in 1999.

Income Taxes. As of December 31, 2000, the Company had a net operating loss carryforward of approximately \$69 million, in addition to numerous timing differences which gave rise to a deferred tax asset of approximately \$41 million, which was fully reserved by a valuation allowance at that date. Utilization of net operating loss carryforwards and other timing differences will be recognized as a reduction in income tax expense in the year utilized. A current tax provision of \$1.78 million was provided for the year ended December 31, 2000, which was fully offset by an equal income tax benefit due to operating loss carryforwards and other deferred tax assets.

Capital Expenditures, Capital Resources and Liquidity

Net cash flow provided by operating activities for the year ended December 31, 2001 was \$7.6 million, as compared to net cash flow provided by operating activities of \$6.3 million for the comparable period in 2000.

Net cash provided by financing activities for 2001 was \$3.1 million as compared to net cash used of \$1.9 million during 2000. Net cash provided by financing activities in 2001 included \$3.0 million of proceeds from the new Gulfport Funding, LLC credit facility while net cash used in 2000 included \$3.5 million of principle repayments. Net cash used in financing activities for 2000 was \$1.9 million as compared to net cash provided of \$2.9 million during 1999. Net cash used in financing activities in 2000 included \$3.5 million of principle payments to pay off the ING note and make principle payments on the new BOK facility and the proceeds of \$1.6 million from the new BOK facility. The 1999 net cash flows provided by financing activities occurred as a result of the \$3.2 million from the Stockholder Credit Facility and the net proceeds from the 1999 Regulation D Offering. The 1999 Regulation D Offering after expenses yielded \$4.97 million to Gulfport. Affiliated Stockholders subscribed for 4,040,011 shares in the 1999 Regulation D Offering through the forgiveness of \$3.0 million in debt, thus netting \$2.0 million to Gulfport for the net cash proceeds from the 1999 Regulation D Offering.

Capital Expenditures. In 2001, Gulfport invested \$12.8 million in oil and gas properties and other property and equipment as compared to \$6.7 million during the comparable period in 2000. Of the \$2.8 million the Company spent during 2001, \$6.8 million was spent on drilling and completion activity on new wells and \$6.0 million was spent on work over activity on existing wells. During 2001, Gulfport financed its capital expenditures with cash flow provided by operations and borrowings under the Company's two credit facilities.

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properties by undertaking new drilling, workover, sidetrack and recompletion projects in the fields to exploit its extensive reserves. The Company has upgraded its infrastructure by enhancing its existing facilities to increase operating efficiencies, increase volume capacities and lower lease operating expenses. Additionally, Gulfport has undertaken the reprocessing of its 3D seismic data in its principal property, West Cote Blanche Bay. The reprocessed data will enable the Company's geophysicists to generate new prospects and enhance existing prospects in the intermediate zones in the field thus creating a portfolio of new drilling opportunities in the most prolific depths of the field.

Capital Resources. On July 11, 1997 Gulfport entered into a \$15,000,000 credit facility with ING (U.S.) Capital Corporation ("ING"). During 1998 and 1999, there were two amendments to the facility and the maturity date was reset to June 30, 2000. On June 28, 2000, the Company repaid in full its credit facility at ING and established a new credit facility at Bank of Oklahoma ("BOK"). Gulfport was advanced \$1.6 million on this new facility, which called for interest payments to be made monthly in addition to twelve monthly principal payments of \$100,000, with the remaining unpaid balance due on August 31, 2001. On March 22, 2001, Gulfport executed a new note with BOK increasing the availability to \$1,760,000, increasing the monthly payments slightly to \$110,000 beginning July 1, 2001 and extending the maturity date to October 1, 2002. This new note replaces the original BOK note dated June 28, 2000.

On May 22, 2001, the Company entered in to a revolving line of credit agreement with Gulfport Funding, LLC, ("Gulfport Funding") which has ownership in common with the Company. Under the terms of the agreement, the Company may borrow up to \$3,000,000, with borrowed amounts bearing interest at Bank of America Prime Rate plus 4%. All outstanding principal amounts along with accrued interest are due on February 22, 2002. The Company paid a facility commitment fee of \$60,000 in connection with this line of credit. This fee will be amortized over the life of the agreement. As of December 31, 2001, the Company borrowed \$3,000,000 available under this line.

In March 2002, the Company commenced a Private Placement Offering of \$10.0 million dollars consisting of 10,000 Units. Each Unit consists of (i) one (1) share of Cumulative Preferred Stock, Series A, of the Company (Preferred) and (ii) a warrant to purchase up to 250 shares of common stock, par value \$0.01 per share. Dividends shall accrue on the Preferred Stock prior to the Mandatory Redemption Date (as defined below) at the rate of 12% per annum payable quarterly in cash or, at the option of the Company for a period not to exceed two (2) years from the Closing Date, payable in whole or in part in additional shares of the Preferred based on the Liquidation Preference (as defined below) of the Preferred at the rate of 15% per annum. No other dividends shall be declared or shall accrue on the Preferred. To the extent funds are legally available, the Company is obligated to declare and pay the dividends on the Preferred. The Warrants have a term of ten (10) years and an exercise price of \$4.00. The Company is required to redeem the Preferred on the fifth anniversary of the first issuance and the Company may at its sole option, choose to redeem the Preferred at any time before the expiration of the five years.

Two-thirds of the Preferred Stockholders can affect any Company action which would effect their preference position. The Preferred cannot be sold or transferred by its holders and the Company must use its best efforts to register with the Securities and Exchange Commission ("SEC") the common stock issued in connection with the exercise of the Warrants or, if possible, piggyback the issued common stock if the Company participates in a public offering with the SEC.

The Offering was made available to stockholders and affiliates of the Company as of December 31, 2001 who were known to be accredited investors by the Company. Purchasers were able to participate up to their pro-rata share of

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ownership in the Company as of December 31, 2001. The Offering's initial closing will begin March 29, 2002 and will continue until April 15, 2002. Mike Liddell, the Company's Chief Executive Officer, shall have until September 30, 2002 to subscribe for his proportionate share of the Offering.

On March 29, 2002, Gulfport Funding, LLC, participated in the Offering through a conversion of its \$3.0 million dollar loan along with the accumulated interest due from the Company for 3,262.98 Units. Additionally on March 29, 2002, entities controlled by the majority shareholder initially funded a share of the Preferred Offering in the amount of \$2,738,000.

As a result of the completion of the NSA engineering report for the year ended January 1, 2002, the Company intends to initiate discussions with it's banking institutions and attempt to put in a place a larger and longer-term revolving credit facility. The Company cannot be sure however that they will be successful.

The Company is also currently consulting with several financial advisors to determine how to take advantage of the current market whether through internal value creation or a capital markets transaction.

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Liquidity. The primary capital commitments faced by the Company are the capital requirements needed to continue developing the Company's proved reserves and to continue meeting the required principal payments on its term Credit Facilities.

In Gulfport's January 1, 2002 reserve report, 85% of Gulfport's net reserves were categorized as proved undeveloped. The proved reserves of Gulfport will generally decline as reserves are depleted, except to the extent that Gulfport conducts successful exploration or development activities or acquires properties containing proved developed reserves, or both.

To realize reserves and increase production, the Company must continue its exploratory drilling, undertake other replacement activities or utilize third parties to accomplish those activities. The Company plans to begin a ten well drilling program in the second quarter of 2002. The ten well program will consist of eight developmental intermediate depth wells, one developmental shallow horizontal well and one exploratory shallow well. The Company anticipates that these wells will access significant oil and gas deposits with most of the wells having multiple targets ranging from relatively low risk proven undeveloped objectives to higher potential exploratory targets. Gulfport also anticipates several recompletions and workovers in the field during 2002. It is anticipated that these reserve development projects will be funded either through the use of cash flow from operations when available, interim bank financing, a long-term credit facility or by accessing the capital markets. The cash flow generated from these new projects will be reinvested in the field to complete more capital projects.

Commitments and Contingencies

Plugging and Abandonment Funds

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

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property. As of December 31, 2001, the plugging and abandonment trust totaled \$2,272,000, including interest received during 2001 of approximately \$55,000.

During October 2001, Gulfport completed the yearly program to meet its plugging liability for the twelve-month period ending March 2001. The Company plugged 26 non-producing wells at West Cote Blanche Bay. During March 2002, Gulfport began to fulfill its yearly plugging commitment of 20 wells at WCBB for the twelve-month period ending, March 2002.

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

Texaco Global Settlement

Pursuant to the terms of a global settlement between ChevronTexaco and the State of Louisiana which includes the State Lease No. 50 portion of Gulfport's East Hackberry Field, Gulfport was obligated to commence drilling a well or other qualifying development operation on certain non-producing acreage in the field prior to March 1998. Because of prevailing market conditions during 1998,

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the Company believed it was commercially impractical to shoot seismic or commence drilling operations on the subject property. As a result, Gulfport has agreed to surrender approximately 440 non-producing acres in this field to the State of Louisiana. At December 31, 2001, Gulfport was in the process of releasing these properties to the State of Louisiana.

Year 2000 Compliance

Gulfport made all necessary investments in software systems and applications to ensure it was Year 2000 compliant. Gulfport did not experience any difficulties related to the Year 2000 rollover. Any cost associated with the process of becoming Year 2000 compliant was not material.

Subsequent Events

In March 2002, the Company commenced a Private Placement Offering of \$10.0 million dollars consisting of 10,000 Units. Each Unit consists of (i) one (1) share of Cumulative Preferred Stock, Series A, of the Company (Preferred) and (ii) a warrant to purchase up to 250 shares of common stock, par value \$0.01 per share. Dividends shall accrue on the Preferred Stock prior to the Mandatory Redemption Date (as defined below) at the rate of 12% per annum payable quarterly in cash or, at the option of the Company for a period not to exceed two (2) years from the Closing Date, payable in whole or in part in additional shares of the Preferred based on the Liquidation Preference (as defined below) of the Preferred at the rate of 15% per annum. No other dividends shall be declared or shall accrue on the Preferred. To the extent funds are legally available, the Company is obligated to declare and pay the dividends on the Preferred. The Warrants have a term of ten (10) years and an exercise price of \$4.00. The Company is required to redeem the Preferred on the fifth anniversary of the first issuance and the Company may at its sole option, choose to redeem the Preferred at any time before the expiration of the five years.

Two-thirds of the Preferred Stockholders can affect any Company action which would effect their preference position. The Preferred cannot be sold or transferred by its holders and the Company must use its best efforts to register with the Securities and Exchange Commission ("SEC") the common stock issued in connection with the exercise of the Warrants or, if possible, piggyback the issued common stock if the Company participates in a public offering with the

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SEC.

The Offering was made available to stockholders and affiliates of the Company as of December 31, 2001 who were known to be accredited investors by the Company. Purchasers were able to participate up to their pro-rata share of ownership in the Company as of December 31, 2001. The Offering's initial closing will begin March 29, 2002 and will continue until April 15, 2002. Mike Liddell, the Company's Chief Executive Officer, shall have until September 30, 2002 to subscribe for his proportionate share of the Offering.

On March 29, 2002, Gulfport Funding, LLC, participated in the Offering through a conversion of its \$3.0 million dollar loan along with the accumulated interest due from the Company for 3,262.98 Units. Additionally on March 29, 2002, entities controlled by the majority shareholder initially funded a share of the Preferred Offering in the amount of \$2,738,000.

Item 8. Financial Statements and Supplementary Data

The information required by this item appears on pages F-1 through F-22 following the signature pages of this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

PART III

Item 10. Directors and Executive Officers of the Registrant.

The officers and directors of Gulfport are as follows:

| Name ---- | Age --- | Position ----- |
|-------------------|------------|--|
| Mike Liddell | 48 | Chairman of the Board, Chief Executive Officer, President and Director |
| Michael G. Moore | 45 | Vice President and Chief Financial Officer |
| Lisa Holbrook | 31 | Vice President, General Counsel and Secretary |
| Robert E. Brooks | 55 | Director |
| *David L. Houston | 49 | Director |
| *Mickey Liddell | 40 | Director |
| *Dan Noles | 54 | Director |

*Members of Gulfport's Audit Committee.

Mike Liddell has served as a director of Gulfport since July 11, 1997, as Chief Executive Officer since April 28, 1998 and as Chairman of the Board since July 28, 1998. Mr. Liddell has served as President of Gulfport since July 2000. In addition, Mr. Liddell served as Chief Executive Officer of DLB from October 1994 to April 28, 1998, and as a director of DLB from 1991 through April 1998. From 1991 to 1994, Mr. Liddell was President of DLB. From 1979 to 1991, he was President and Chief Executive Officer of DLB Energy. He received a B.S. degree in education from Oklahoma State University. He is the brother of Mickey Liddell and brother in law of Dan Noles.

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Michael G. Moore has served as Vice President and Chief Financial Officer since July 2000. From May 1998 through July 2000, Mr. Moore served as Vice President and Chief Financial Officer of Indian Oil Company. From September 1995 through May 1998, Mr. Moore served as Controller of DLB Oil & Gas, Inc. Prior to that, Mr. Moore served as Controller of LEDCO, Inc., a Houston based gas marketing company. Mr. Moore received his B.B.A degree in finance from the University of Central Oklahoma in 1982 and in 1987 also completed his M.B.A. from the University of Central Oklahoma.

Lisa Holbrook has served as Vice President and Secretary of Gulfport since November 5, 1999, and as General Counsel since April 28, 1998. In addition, Ms. Holbrook served as Assistant General Counsel of DLB until April 1998. In 1996, Ms. Holbrook received her J.D. from Oklahoma City University Law School where she graduated with highest distinction.

Robert E. Brooks has served as a director of Gulfport since July 11, 1997. Mr. Brooks is currently a partner with Brooks Greenblatt, a commercial finance company located in Baton Rouge, Louisiana that was formed by Mr. Brooks in July 1997. Mr. Brooks is a Certified Public Accountant and was Senior Vice President in charge of Asset Finance and Managed Assets for Bank One, Louisiana between 1993 and July 1997. He received his B.S. degree from Purdue University in mechanical engineering in 1969. He obtained graduate degrees in finance and accounting from the Graduate School of Business at the University of Chicago in 1974.

David Houston has served as a director of Gulfport since July 1998. Since 1991, Mr. Houston has been the principal of Houston & Associates, a firm that offers life and disability insurance, compensation and benefits plans and estate planning. Prior to 1991, he was President and Chief Executive Officer of Equity Bank for Savings, F.A., a \$600 million, Oklahoma-based savings bank. He currently serves on the board of directors and executive committee of Deaconess Hospital, Oklahoma City, Oklahoma, and is the former chair of the Oklahoma State Ethics Commission and the Oklahoma League of Savings Institutions. He received a Bachelor of Science degree in business from Oklahoma State University and a graduate degree in banking from Louisiana State University.

Mickey Liddell has served as a director of Gulfport since January 1999. Mr. Liddell is currently the President of Banner Entertainment, Inc., a motion picture production company in Los Angeles, California. Prior to 1994, Mr. Liddell owned and managed wholesale nutrition product stores in Los Angeles. Mr. Liddell received a Bachelor of Arts from the University of Oklahoma in Communications in 1984 and a graduate degree from Parson School of Design in New York, New York in 1987. He is the brother of Mike Liddell and the brother in law of Dan Noles.

Dan Noles was appointed to the Board of Directors in January of 2000. Mr. Noles has served as the president of Atoka Management Company, an oilfield equipment company, since 1993. Mr. Noles received his Bachelor degree in

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Finance from the University of Oklahoma in 1970. Mr. Noles is the brother-in-law to Mike Liddell and Mickey Liddell.

Items 11 & 12.

For information concerning Item 11 - Executive Compensation and Item 12 - Security Ownership of Certain Beneficial owners and Management, see the definitive Proxy Statement of Gulfport Energy Corporation for the Annual Meeting of Shareholders to be held on April 15, 2002, which will be filed with the Securities and Exchange Commission within 120 days after the close of the

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Registrant's year and is incorporated herein by this reference (with the exception of portions noted therein that are not incorporated by reference). See also Part I - Item 4A - Executive Officers of the Registrant.

Item 13. Certain Relationships and Related Transactions

In March 2001, a company that shares common ownership with Gulfport acquired a majority of the oil and natural gas properties of a mid-continent exploration and production company. Subsequent to the acquisition, Gulfport began providing administrative services to effectively manage the day-to-day operations of this acquisition and in turn receives an administrative service fee for such services.

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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

- (a) 1. Financial Statements. The following Financial Statements of the Company, the Notes thereto, and the reports thereon are filed under Item 8 of this Report.

| | |
|---|-----|
| Independent Auditors Report | F-2 |
| Balance Sheets, December 31, 2001 and 2000 | F-3 |
| Statements of Income, Years Ended December 31, 2001, 2000 and 1999 | F-4 |
| Statements of Stockholders' Equity, Years Ended December 31, 2001, 2000 and 1999. | F-5 |
| Statements of Cash Flows, Years Ended December 31, 2001, 2000 and 1999 | F-6 |
| Notes to Financial Statements | F-7 |

2. Financial Statement Schedules. All financial statement schedules have been omitted, as the required information is inapplicable or is not present in amounts sufficient to require submission of the schedule or the information is presented in the Financial Statements or related notes.

3. Exhibits.

10.1 Credit Agreement Dated June 28, 2000 between Registrant and Bank of Oklahoma Filed March 30, 2001

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10.2 Stock Option Plan Filed March 30, 2001

10.3 Credit Agreement dated February 1, 2001 between Registrant and Bank of Oklahoma

(b). Reports on Form 8-K

June 30, 2000 - Disclosure of bank debt reduction and hiring of new CFO

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934 as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 30, 2001.

GULFPORT ENERGY CORPORATION

By:/s/Mike Liddell

Mike Liddell, Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934 as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the date indicated.

Date: March 30, 2002

By:/s/Mike Liddell

Mike Liddell, Chief Executive
Officer And Director

Date: March 30, 2002

By:/s/Robert Brooks

Robert Brooks, Director

Date: March 30, 2002

By:/s/David L. Houston

David L. Houston, Director

Date: March 30, 2002

By:/s/Mickey Liddell

Mickey Liddell, Director

Date: March 30, 2002

By:/s/Dan Noles

Dan Noles, Director

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Date: March 30, 2002

By: /s/ Michael G. Moore

Michael G. Moore, Vice President and
Chief Financial Officer

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EXHIBIT INDEX

- 10.7 Credit Agreement Dated June 28, 2000 between Registrant and Bank of Oklahoma Filed March 30, 2001
- 10.8 Stock Option Plan Filed March 30, 2001
- 10.9 Credit Agreement dated February 1, 2001 between Registrant and Bank of Oklahoma

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Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

| | Page |
|--|------|
| | ---- |
| Independent Auditors' Report | F-2 |
| Balance Sheets, December 31, 2001 and 2000 | F-3 |
| Statements of Income, Years Ended December 31, 2001, 2000 and 1999 | F-4 |
| Statements of Shareholders' Equity, Years Ended December 31, 2001, 2000 and 1999 | F-5 |
| Statements of Cash Flows, Years Ended December 31, 2001, 2000 and 1999 | F-6 |
| Notes to Financial Statements | F-7 |

All financial statement schedules are omitted, as the required information is

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inapplicable or the information is presented in the financial statements or related notes.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and
Stockholders of Gulfport Energy Corporation:

We have audited the accompanying balance sheets of Gulfport Energy Corporation (a Delaware corporation) as of December 31, 2001 and 2000, and the related statements of income, stockholders' equity, and cash flows for the years ended December 31, 2001, 2000 and 1999. These financial statements are the responsibility of Gulfport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gulfport Energy Corporation as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years ended December 31, 2001, 2000 and 1999, in conformity with accounting principles generally accepted in the United States of America.

HOGAN & SLOVACEK

Oklahoma City, OK
March 29, 2002

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GULFPORT ENERGY CORPORATION

BALANCE SHEETS

| | December 31, | |
|--|---------------|---------------|
| | 2001 | 2000 |
| <hr/> | | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,077,000 | \$ 3,657,000 |
| Accounts receivable, net of allowance for doubtful accounts of \$239,000 and \$244,000 at December 31, 2001 and 2000, respectively | 1,096,000 | 3,608,000 |
| Accounts receivable - related party | 160,000 | - |
| Prepaid expenses and other current assets | 253,000 | 171,000 |
| | <hr/> | <hr/> |
| Total current assets | 2,586,000 | 7,436,000 |
| | <hr/> | <hr/> |
| Property and equipment: | | |
| Oil and natural gas properties | 103,344,000 | 90,640,000 |
| Other property and equipment | 1,976,000 | 1,919,000 |
| Accumulated depletion, depreciation, amortization and impairment reserve | (69,597,000) | (65,867,000) |
| | <hr/> | <hr/> |
| Property and equipment, net | 35,723,000 | 26,692,000 |
| | <hr/> | <hr/> |
| Other assets | 2,583,000 | 2,050,000 |
| | <hr/> | <hr/> |
| | \$ 40,892,000 | \$ 36,178,000 |
| | <hr/> | <hr/> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 2,637,000 | \$ 6,426,000 |
| Note payable - related party | 3,000,000 | - |
| Current maturities of long-term debt | 1,120,000 | 878,000 |
| | <hr/> | <hr/> |
| Total current liabilities | 6,757,000 | 7,304,000 |
| | <hr/> | <hr/> |
| Long-term debt | 143,000 | 301,000 |
| | <hr/> | <hr/> |
| Total liabilities | 6,900,000 | 7,605,000 |
| | <hr/> | <hr/> |
| Commitments and contingencies | - | - |
| Stockholders' equity: | | |
| Preferred stock - \$.01 par value, 1,000,000 authorized, none issued | - | - |

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| | | |
|--|---------------|---------------|
| Common stock - \$.01 par value, 15,000,000 authorized, 10,146,566 and 10,145,400 issued and outstanding at December 31, 2001 and 2000, respectively | 101,000 | 101,000 |
| Paid-in capital | 84,192,000 | 84,190,000 |
| Accumulated deficit | (50,301,000) | (55,718,000) |
| | ----- | ----- |
| Total stockholders' equity | 33,992,000 | 28,573,000 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 40,892,000 | \$ 36,178,000 |
| | ===== | ===== |

See accompanying notes to financial statements.

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GULFPORT ENERGY CORPORATION

STATEMENTS OF INCOME

| | Year ended December 31, | | |
|--|-------------------------|------------|-------------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| Revenues: | | | |
| Gas sales | \$ 298,000 | \$ 337,000 | \$ 303,000 |
| Oil and condensate sales | 15,160,000 | 15,781,000 | 9,715,000 |
| Other income | 215,000 | 252,000 | - |
| | ----- | ----- | ----- |
| | 15,673,000 | 16,370,000 | 10,018,000 |
| | ----- | ----- | ----- |
| Costs and expenses: | | | |
| Operating expenses | 4,767,000 | 5,098,000 | 3,472,000 |
| Production taxes | 1,750,000 | 1,634,000 | 1,168,000 |
| Depreciation, depletion, and amortization | 3,778,000 | 3,351,000 | 3,615,000 |
| General and administrative | 1,634,000 | 1,552,000 | 1,667,000 |
| Provision for doubtful accounts | - | - | 56,000 |
| | ----- | ----- | ----- |
| | 11,929,000 | 11,635,000 | 9,978,000 |
| | ----- | ----- | ----- |
| INCOME FROM OPERATIONS | 3,744,000 | 4,735,000 | 40,000 |
| | ----- | ----- | ----- |
| OTHER (INCOME) EXPENSE: | | | |
| Gain on settlement of disputed amounts | (1,921,000) | - | - |
| Interest expense | 381,000 | 596,000 | 934,000 |
| Interest income | (133,000) | (320,000) | (193,000) |
| Proceeds from Litigation Trust | - | - | (1,342,000) |
| | ----- | ----- | ----- |
| | (1,673,000) | 276,000 | (601,000) |

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| | | | |
|-------------------------------|--------------|--------------|------------|
| | ----- | ----- | ----- |
| INCOME BEFORE INCOME TAXES | 5,417,000 | 4,459,000 | 641,000 |
| INCOME TAX EXPENSE (BENEFIT): | | | |
| Current | 2,167,000 | 1,784,000 | 255,000 |
| Deferred | (2,167,000) | (1,784,000) | (255,000) |
| | ----- | ----- | ----- |
| | - | - | - |
| | ----- | ----- | ----- |
| NET INCOME | \$ 5,417,000 | \$ 4,459,000 | \$ 641,000 |
| | ===== | ===== | ===== |
| NET INCOME PER COMMON SHARE: | | | |
| Basic | \$ 0.53 | \$ 0.44 | \$ 0.13 |
| | ===== | ===== | ===== |
| Diluted | \$ 0.52 | \$ 0.43 | \$ 0.13 |
| | ===== | ===== | ===== |

See accompanying notes to financial statements.

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GULFPORT ENERGY CORPORATION Statements of Stockholders' Equity

| | Preferred Stock | Common Shares | Stock Amount | Additional Paid-in Capital | Accumulated Deficit |
|---|--------------------|------------------|-----------------|----------------------------------|------------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 1998 | \$ - | 3,445,400 | \$1,723,000 | \$77,598,000 | (60,818,000) |
| Change in par value of common stock | - | - | (1,689,000) | 1,689,000 | - |
| | ----- | ----- | ----- | ----- | ----- |
| Balance as restated, December 31, 1998 | - | 3,445,400 | 34,000 | 79,287,000 | (60,818,000) |
| Regulation D offering | - | 6,700,000 | 67,000 | 4,903,000 | - |
| Net income | - | - | - | - | 641,000 |
| | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 1999 | - | 10,145,400 | 101,000 | 84,190,000 | (60,177,000) |
| Net income | - | - | - | - | 4,459,000 |
| | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 2000 | - | 10,145,400 | 101,000 | 84,190,000 | (55,718,000) |
| Common shares issued | - | 1,166 | - | 2,000 | - |

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| | | | | | |
|------------------------------|-------|------------|------------|--------------|-----------------|
| Net income | - | - | - | - | 5,417,000 |
| | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 2001 | \$ - | 10,146,566 | \$ 101,000 | \$84,192,000 | \$ (50,301,000) |
| | ===== | ===== | ===== | ===== | ===== |

See accompanying notes to financial statements.

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GULFPORT ENERGY CORPORATION
Statements of Cash Flows

| | Year ended December 31, | | |
|---|-------------------------|--------------|-------------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| Cash flows from operating activities: | | | |
| Net income | \$ 5,417,000 | \$ 4,459,000 | \$ 641,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depletion, depreciation and amortization | 3,730,000 | 3,335,000 | 3,615,000 |
| Provision for doubtful accounts receivable | - | - | 56,000 |
| Amortization of debt issuance costs | 44,000 | 16,000 | 108,000 |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in accounts receivable - related | (160,000) | - | - |
| (Increase) decrease in accounts receivable | 2,512,000 | (1,553,000) | (455,000) |
| (Increase) decrease in prepaid expenses | (126,000) | (51,000) | (10,000) |
| (Decrease) increase in accounts payable and accrued liabilities | (3,789,000) | 130,000 | 2,406,000 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 7,628,000 | 6,336,000 | 6,361,000 |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Additions to cash held in escrow | (533,000) | (55,000) | (92,000) |
| Redemption of Certificates of Deposit | - | 200,000 | - |
| Capital expenditures | (12,761,000) | (6,658,000) | (7,147,000) |
| Proceeds from sale of oil and gas properties | - | 100,000 | 47,000 |
| Proceeds from sale of equipment | - | - | 5,000 |
| Increase (decrease) in other assets | - | (19,000) | (94,000) |
| | ----- | ----- | ----- |
| Net cash used in investing activities | (13,294,000) | (6,432,000) | (7,281,000) |
| | ----- | ----- | ----- |

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| | | | |
|--|--------------|--------------|--------------|
| Cash flows from financing activities: | | | |
| Proceeds from sales of common stock | 2,000 | - | 4,971,000 |
| Proceeds from borrowings - related party | 3,000,000 | - | - |
| Proceeds from borrowings | 960,000 | 1,600,000 | 3,210,000 |
| Principle payments on borrowings | (876,000) | (3,495,000) | (5,311,000) |
| Payment of loan origination fees | - | (16,000) | - |
| | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities | 3,086,000 | (1,911,000) | 2,870,000 |
| | ----- | ----- | ----- |
| Net (decrease) increase in cash and cash equivalents | (2,580,000) | (2,007,000) | 1,950,000 |
| Cash and cash equivalents at beginning of period | 3,657,000 | 5,664,000 | 3,714,000 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 1,077,000 | \$ 3,657,000 | \$ 5,664,000 |
| | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | |
| Interest payments | \$ 114,000 | \$ 240,000 | \$ 476,000 |
| | ===== | ===== | ===== |

See accompanying notes to financial statements.

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GULFPORT ENERGY CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Gulfport is a domestic independent oil and gas exploration, development and production company with properties located in the Louisiana Gulf Coast.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Oil and Gas Properties

The Company uses the Full Cost method of accounting for oil and gas operations. Accordingly, all costs, including nonproductive costs and certain general and administrative costs associated with acquisition, exploration and development of oil and gas properties, are capitalized. Net capitalized costs are limited to the estimated future net revenues, after income taxes, discounted at 10% per year, from proven oil and gas reserves and the cost of the properties not subject to amortization. Such capitalized costs, including the estimated

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future development costs and site remediation costs, if any, are depleted by an equivalent units-of-production method, converting gas to barrels at the ratio of six MCF of gas to one barrel of oil. No gain or loss is recognized upon the disposal of oil and gas properties, unless such dispositions significantly alter the relationship between capitalized costs and proven oil and gas reserves. Oil and gas properties not subject to amortization consist of the cost of undeveloped leaseholds. These costs are reviewed periodically by management for impairment, with the impairment provision included in the cost of oil and gas properties subject to amortization. Factors considered by management in its impairment assessment include drilling results by Gulfport and other operators, the terms of oil and gas leases not held by production, and available funds for exploration and development.

Other Property and Equipment

Depreciation of other property and equipment is provided on a straight-line basis over estimated useful lives of the related assets, which range from seven to 30 years.

Reclassifications

Certain reclassifications have been made to the 2000 and 1999 financial statements presentations in order to conform to the 2001 financial statements presentation.

Net Income per Common Share

Basic net income per common share is computed by dividing income attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur if options or other contracts to issue

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GULFPORT ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2000 AND 1999
CONTINUED

common stock were exercised or converted into common stock. Calculations of basic and diluted net income per common share are illustrated in Note 12.

Income Taxes

Gulfport uses the asset and liability method of accounting for income taxes, under which, deferred tax assets and liabilities are recognized for the future tax consequences of (1) temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and (2) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income during the period the rate change is enacted. Deferred tax assets are recognized as income in the year in which realization becomes determinable.

Revenue Recognition

Gas revenues are recorded in the month produced using the entitlement method, whereby any production volumes received in excess of the Company's ownership percentage in the property are recorded as a liability. If less than

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Gulfport's entitlement is received, the underproduction is recorded as a receivable. There is no such liability or asset recorded at December 31, 2001 or December 31, 2000. Oil revenues are recognized in the month produced.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Significant estimates with regard to these financial statements include the estimate of proved oil and gas reserve quantities and the related present value of estimated future net cash flows there from and future net operating loss carryforwards available as reductions of income tax expense.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Segment Information

The Company's only revenue generating activity is the production and sale of oil and gas. Therefore, no reporting of business segments has been included in these financial statements or the notes thereto.

2. ACCOUNTS RECEIVABLE - RELATED PARTY

Included in the accompanying December 31, 2001 balance sheet are amounts receivable from entities that have similar controlling interests as those

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controlling the Company. These receivables represent amounts billed by the Company for general and administrative functions performed by Gulfport's personnel on behalf of the related party companies during 2001. Gulfport has reduced its corresponding expenses by \$325,000 billed to the companies for performance of these services.

3. PROVISION FOR ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary of the activity in the allowance for doubtful accounts for the years ended December 31, 2001 and 2000 is as follows:

| | 2001 | 2000 |
|--------------------------------|------------|------------|
| | ----- | ----- |
| Balance, beginning of the year | \$ 244,000 | \$ 244,000 |
| Provision for bad debts | - | - |
| Bad debts written off | (5,000) | - |
| | ----- | ----- |

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| | | | |
|-------|---------|-------|---------|
| \$ | 239,000 | \$ | 244,000 |
| ===== | | ===== | |

No charges to bad debt expense were made during the years ended December 31, 2001 and 2000. During the year ended December 31, 1999, the Company charged \$56,000 to bad debt expense. The 1999 bad debt expense related to receivables on properties no longer owned by Gulfport.

4. PROPERTY AND EQUIPMENT

The major categories of property and equipment and related accumulated depreciation, depletion and amortization as of December 31 are as follows:

| | 2001 | 2000 |
|---|----------------|---------------|
| | ----- | ----- |
| Oil and gas properties | \$ 103,344,000 | \$ 90,640,000 |
| Office furniture and fixtures | 1,499,000 | 1,442,000 |
| Building | 217,000 | 217,000 |
| Land | 260,000 | 260,000 |
| | ----- | ----- |
| Total property and equipment | \$ 105,320,000 | \$ 92,559,000 |
| | ----- | ----- |
| Accumulated depreciation, depletion, amortization and impairment reserve | (69,597,000) | (65,867,000) |
| | ----- | ----- |
| Property and equipment, net | \$ 35,723,000 | \$ 26,692,000 |
| | ===== | ===== |

Included in oil and gas properties at December 31, 2001 and 2000, are \$1,217,000 and \$801,000, respectively, in general and administrative costs incurred and capitalized to the full cost pool. General and administrative costs capitalized to the full cost pool are those incurred directly related to exploration and development activities such as geological costs and other administrative costs associated with overseeing the exploration and development activities. All general and administrative costs not directly associated with exploration and development activities were charged to expense as they were incurred. During 1999, \$413,000 in general and administrative costs were capitalized to the full cost pool.

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During 2000, the Company sold equipment related to oil and gas properties totaling \$100,000. The sale of these properties was treated as a reduction to the full cost pool.

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5. OTHER ASSETS

Other assets as of December 31 consist of the following:

| | 2001 | 2000 |
|---|--------------|--------------|
| | ----- | ----- |
| Plugging and abandonment escrow account on the WCBB properties | \$ 2,272,000 | \$ 1,739,000 |
| CDs securing letter of credit | 200,000 | 200,000 |
| Deposits | 111,000 | 111,000 |
| | ----- | ----- |
| | \$ 2,583,000 | \$ 2,050,000 |
| | ===== | ===== |

6. SETTLEMENT OF CLAIMS

In accordance with a reorganization that took place during 1997, Gulfport accrued certain tax claims totaling \$372,000, which are included in the accompanying balance sheet at December 31, 2000 as current liabilities. At December 31, 2001 management determined these claims would not be asserted and they were written off. The resulting income has been included in "Gain on Settlement of Disputed Amounts" in the accompanying statement of income for the year ended December 31, 2001.

7. LONG-TERM DEBT

Long-term debt as of December 31 is as follows:

| | 2001 | 2000 |
|---|--------------|-----------|
| | ----- | ----- |
| Note payable to bank, payable in monthly payments of \$110,000, including interest at the Chase Manhattan Prime rate plus 1% (5.75% at December 31, 2001), with final payment of outstanding principal and accrued interest amounts due October 2002. | \$ 1,100,000 | \$ - |
| Note payable to bank, payable in monthly payments of \$100,000, including interest at the Chase Manhattan Prime rate plus 1%, with final payment of outstanding principal and accrued interest amounts due August 2001. The outstanding balance at December 1, 2000, was refinanced effective February 1, 2001. | - | 1,000,000 |
| Note payable to bank, payable in monthly payments of \$2,900, including interest at 9.5%, concluding May, 2004, collateralized by land and building. | 163,000 | 179,000 |

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| | | |
|---|-------------|------------|
| | ----- | ----- |
| Total | 1,263,000 | 1,179,000 |
| Less - current maturities of long-term debt | (1,120,000) | (878,000) |
| | ----- | ----- |
| Debt reflected as long-term | \$ 143,000 | \$ 301,000 |
| | ===== | ===== |

Following are the maturities of long-term debt for each of the next three years:

| | |
|------|-------------|
| 2002 | \$1,120,000 |
| 2003 | 21,000 |
| 2004 | 122,000 |
| | ----- |
| | \$1,263,000 |
| | ===== |

Note Payable Refinancing

On February 1, 2001, Gulfport refinanced its \$1,000,000 note payable which was outstanding at December 31, 2000. Additional borrowings of \$960,000 were also made during April 2001, bringing the total amount borrowed to \$1,760,000, which is the total available under this line. Under the terms of the new agreement, monthly principal payments of \$110,000 were to be made beginning July 1, 2001, with the remaining outstanding principal due October 1, 2002. The refinanced note bears interest at Chase Manhattan Prime rate plus 1%.

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GULFPORT ENERGY CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999 CONTINUED

Building Loan

In 1996, the Company purchased a building in Lafayette, Louisiana to be used as Gulfport's Louisiana headquarters. The building is 12,480 square feet with approximately 6,180 square feet of finished office area and 6,300 square feet of warehouse space. This building allows Gulfport to provide office space for Louisiana personnel, have access to meeting space close to the fields and to maintain a corporate presence in Louisiana.

8. NOTE PAYABLE - RELATED PARTY

On May 22, 2001, the Company entered in to a revolving line of credit agreement with Gulfport Funding, LLC, ("Gulfport Funding") which has ownership in common with the Company. Under the terms of the agreement, the Company may borrow up to \$3,000,000, with borrowed amounts bearing interest at Bank of America Prime Rate plus 4%. The Company paid a facility commitment fee of \$60,000 in connection with this line of credit. This fee will be amortized over the life of the agreement. As of December 31, 2001, the Company had borrowed the \$3,000,000 available under this line. All outstanding principal amounts along

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with accrued interest were due on February 22, 2002.

In accordance with the revolving credit agreement, the Company issued 108,625 warrants to CD Holdings, LLC. The exercise price of these warrants was established as the average closing price of the Company's common stock for the five days following the issuance of the warrants. The warrant agreement provides for pro-rata adjustments to the number of warrants granted if the Company at any time increases the number of outstanding shares or otherwise adjusts its capitalization.

On March 29, 2002, the outstanding balance on this note, along with accumulated interest due on the note, were retired through Gulfport Funding's participation in the Company's Private Placement Offering as described in Note 17.

9. COMMON STOCK OPTIONS, WARRANTS AND CHANGES IN CAPITALIZATION

Options

The Company granted its Chief Financial Officer 10,000 stock options with an exercise price of \$2.00 per share and an effective date of July 15, 2000. The options vest 35% in July 2001, and 35% in July 2002 with the remaining shares vesting in 2003. The option agreement provides for pro-rata adjustments

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to the options granted if the Company at any time increases the number of outstanding shares or otherwise alters its capitalization.

During January, 2000, the Company's Chief Executive Officer, employees, and non-employee directors were granted a total of 313,635 stock options with an exercise price of \$2.00 per share. The options vest 35% in January 2001, and 35% in January 2002, with the remaining options vesting in January 2003. The option agreements provide for pro-rata adjustments to options granted if the Company at any time increases the number of outstanding shares or otherwise alters its capitalization.

On June 1, 1999, Gulfport's Chief Executive Officer and President were each granted stock options for the purchase of 2.5% of the outstanding shares of Common Stock at an exercise price of \$2.00 per share. The options vest 35% on June 1, 2000, and 35% on June 1, 2001, with the remaining options vesting on June 1, 2002. The option agreements provide for pro-rata adjustments to options granted if Gulfport at any time increases the number of outstanding shares or otherwise alters its capitalization. Stock options previously granted to the President were surrendered to Gulfport upon his death in December 1999.

On September 15, 1999, all non-employee board members were each granted 10,000 options with an exercise price of \$2.00. The options vest 33% on October 1, 1999, and 33% on October 1, 2000, with the remaining options vesting on October 1, 2001. These options granted to non-employee board members will be adjusted on a pro-rata basis to reflect any change in the capitalization of the Company.

Options outstanding at December 31, 2001 totaled 607,355. Of this total, 319,080 options were exercisable at December 31, 2001, with the remaining options vesting in future periods.

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Warrants

In accordance with the revolving credit agreement discussed in Note 8, the Company issued 108,625 warrants to CD Holdings, LLC. The exercise price of these warrants was estimated as the average closing price of the Company's common stock for the five days following the issuance of the warrants. The warrant agreement provides for pro-rata adjustments to the number of warrants granted if the Company at any time increases the number of outstanding shares or otherwise adjusts its capitalization.

Also, at December 31, 2001, 1,163,195 warrants, each for the purchase of one share of Gulfport's common stock, were outstanding. All of these warrants were issued pursuant to a 1997 warrant agreement, stemming from a reorganization which occurred that year. The warrants will expire on July 11, 2002 and are exercisable at \$10 per warrant.

The related agreement contains several anti-dilutive provisions that provide for adjustments to the terms of the warrants in the event of any recapitalization by Gulfport. As a result of Gulfport's capitalization changes as described below, which occurred subsequent to the issuance of these warrants, each warrant outstanding at December 31, 2001 can purchase .234 shares of common stock.

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GULFPORT ENERGY CORPORATION
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Reverse Stock Split

On March 5, 1999, the Board of Directors authorized a 50-to-1 reverse stock split, thereby decreasing the number of issued and outstanding shares to 3,445,400, and increasing the par value of each share to \$.50. Subsequent to this reverse stock split, the par value was reduced to \$.01.

Regulation D Private Placement Offering

During September 1999, Gulfport conducted a private placement of stock (the "Regulation D Offering"). In accordance with the provisions of certain exemptions, the Regulation D Offering was made only to Accredited Investors as defined in Regulation D.

Gulfport offered 6,700,000 shares of common stock at an exercise price of \$.75 per share. Each shareholder exercising his basic subscription privilege in full was entitled to oversubscribe for additional shares. A total of 6,700,000 shares were subscribed, yielding \$5,016,000, net of offering costs. As of the date of the Regulation D Offering, affiliated Shareholders were owed \$3,238,000 by the Company. In the Regulation D Offering, the Affiliated Shareholders acquired 4,040,011 common shares through the forgiveness of \$3,030,000 of this debt, with the remaining balance of \$208,000 paid in cash during 1999.

10. SETTLEMENT OF DISPUTED AMOUNTS

During the second quarter of 2001, the Company reached a settlement with Texaco Exploration and Production, Inc. ("Texaco") regarding previously disputed amounts, some of which date back to periods which were prior to the Company's reorganization. The Company's net gain resulting from this settlement is

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included in the accompanying statement of income for the year ended December 31, 2001, as "Gain on Settlement of Disputed Amounts" in the amount of \$754,000.

Also included on "Gain on Settlement of Disputed Amounts" for the year ended December 31, 2001, were items previously recorded as accounts payable totaling \$1,167,000 which were also settled or had expired by December 31, 2001. Included in this total were certain tax claims of \$372,000 as discussed in Note 6, as well as \$795,000 in funds which the Company had previously classified as accounts payable at December 31, 2000 because it believed these funds exceeded its share of revenues on properties which it owns.

11. INCOME TAXES

A reconciliation of the statutory federal income tax amount to the recorded expense follows:

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| | 2001 | 2000 | 1999 |
|--|--------------|--------------|------------|
| | ----- | ----- | ----- |
| Income before federal income taxes | \$ 5,417,000 | \$ 4,459,000 | \$ 641,000 |
| | ----- | ----- | ----- |
| Expected income tax at statutory rate | 2,167,000 | 1,784,000 | 255,000 |
| Net operating loss carryforward utilized | (2,167,000) | (341,000) | - |
| Other deferred tax assets utilized | - | (1,443,000) | (255,000) |
| | ----- | ----- | ----- |
| Income tax expense recorded | \$ - | \$ - | \$ - |
| | ===== | ===== | ===== |

The tax effects of temporary differences and net operating loss carryforwards, which give rise to deferred tax assets at December 31 are estimated as follows:

| | 2001 | 2000 |
|---------------------------------------|---------------|---------------|
| | ----- | ----- |
| Net operating loss carryforward | \$ 32,403,000 | \$ 18,231,000 |
| Oil and gas property basis difference | 14,181,000 | 23,089,000 |
| | ----- | ----- |
| Total deferred tax asset | 46,584,000 | 41,320,000 |
| Valuation allowance | (46,584,000) | (41,320,000) |
| | ----- | ----- |
| Net deferred tax asset (liability) | \$ - | \$ - |
| | ===== | ===== |

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The Company has an available tax net operating loss carry forward estimated at approximately \$83,085,000 as of December 31, 2001. This carryforward will begin to expire in the year 2013.

12. NET INCOME PER COMMON SHARE

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

| | 2001 | | | 2000 | | | |
|--|-------------|------------|-----------|-------------|------------|-----------|-----------|
| | Income | Shares | Per Share | Income | Shares | Per Share | Income |
| Basic: | | | | | | | |
| Income attributable | | | | | | | |
| to common stock | \$5,417,000 | 10,146,112 | \$0.53 | \$4,459,000 | 10,145,400 | \$0.44 | \$641,000 |
| | | | ===== | | | ===== | |
| Effective of dilutive securities: | | | | | | | |
| Stock options | - | 342,261 | | - | 259,567 | | |
| | | | | | | | |
| Diluted: | | | | | | | |
| Income attributable to common stock, after assumed dilutions | \$5,417,000 | 10,488,373 | \$0.52 | \$4,459,000 | 10,404,967 | \$0.43 | \$641,000 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

Common stock equivalents not included in the above calculations of diluted income are 1,163,195 warrants issued in 1997. Also not included in the calculation of 2001 diluted earnings per share are 108,625 warrants issued in connection with the Company's line of credit with Gulfport Funding, as discussed in Note 8. Also, not included in the calculation of the 1999 diluted income per

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GULFPORT ENERGY CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999 CONTINUED

share are 253,635 stock options issued to an officer of Gulfport in June 1999 and 30,000 stock options issued to certain directors in September 1999. These potential common shares were not considered in the calculations due to their anti-dilutive effect during the periods presented.

13. RELATED PARTY TRANSACTIONS

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In the ordinary course of business, the Company conducts business activities with a substantial number of its shareholders.

DLB Oil & Gas, Inc. ("DLB") and Wexford Management LLC ("Wexford") were, along with Gulfport, co-proponents in a 1997 plan of reorganization. During April of 1998, DLB distributed all of its shares in the Company to its shareholders prior to DLB's acquisition by Chesapeake Energy Corporation. As a result of this distribution, Charles Davidson, Mike Liddell and Mark Liddell collectively received 37.5% of the Company's stock. As of December 31, 2001, Wexford and its affiliates owned approximately 17.7% of Gulfport's issued outstanding stock. Charles Davidson, Mike Liddell and the Estate of Mark Liddell own collectively 55.8% of the Company's outstanding stock as of December 31, 2001.

Administrative Service Agreement

Pursuant to the terms and conditions of an Administrative Services Agreement, DLB agreed to make available to the Company personnel, services, facilities, supplies, and equipment as needed, including executive and managerial, accounting, auditing and tax, engineering, geological and geophysical, legal, land and administrative and clerical services. The initial term was one year beginning on the date of the Administrative Services Agreement. The Administrative Services Agreement was to continue for successive one-year periods unless terminated by either party. On April 28, 1998, in connection with the acquisition of DLB, Inc. by Chesapeake Energy Corporation, the obligations of DLB under the Administrative Services Agreement were assigned to DLB Equities, L.L.C.

Gulfport paid fees under this agreement totaling \$21,000 in 1999 and believes that such fees are comparable to those that would have been charged by an independent third party. Effective June of 1999, this Administrative Service Agreement was terminated.

Stockholder Credit Facility

On August 18, 1998, Gulfport entered into a \$3,000,000 revolving credit facility with Liddell Investments, L.L.C., Liddell Holdings, L.L.C., CD Holdings, L.L.C. and Wexford Entities (collectively "Affiliated Stockholders"). Borrowing under the Stockholder Credit Facility was due on August 17, 1999 and bore interest at LIBOR plus 3%. Pursuant to the facility agreement, Gulfport paid the eligible Affiliated Stockholders an aggregate commitment fee equal to \$60,000. Gulfport repaid \$2,000,000 of principal under the Amended ING Credit Agreement with borrowings under the Stockholder Credit Facility. The remaining \$1,000,000 was used for working capital and general corporate purposes. The Affiliated Stockholders paid the subscription price for 1,200,000 shares pursuant to their Basic Subscription Privilege in the Rights Offering through

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the forgiveness of the amount owed to them under this stockholder credit facility.

On August 5, 1999, Gulfport entered into a \$3,255,000 revolving credit facility with the "Affiliated Stockholders". Borrowing under this agreement was due on August 1, 2000, and bore interest at LIBOR plus 3%. Pursuant to the terms of the agreement, Gulfport paid aggregate commitment fees equal to \$65,000 or 2%

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of the related borrowings in stock. This debt was extinguished through the issuance of 4,040,011 shares of common stock to the Affiliated Stockholders in the Regulation D Offering in August 1999, and through the payment of additional funds totaling \$208,000.

14. COMMITMENTS

Leases

As of December 31, 2001 and 2000, the Company had no long-term, non-cancelable operating lease commitments. Rental expense for all operating leases for the years ended December 31, 2001, 2000 and 1999, totaled \$127,000, \$112,000 and \$119,000, respectively.

Plugging and Abandonment Funds

In connection with the acquisition of the remaining 50% interest in the WCBB properties, the Company assumed the obligation to contribute approximately \$18,000 per month through March, 2004, to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. Texaco retained a security interest in production from these properties until abandonment obligations to Texaco have been fulfilled. Once the plugging and abandonment trust is fully funded, the Company can access it for use in plugging and abandonment charges associated with the property. As of December 31, 2001, the plugging and abandonment trust totaled \$2,272,000, including interest received during 2001 of approximately \$55,000.

During October 2001, Gulfport completed the yearly program to meet its plugging liability for the twelve month period ending March 2001. The Company plugged 26 non-producing wells at West Cote Blanche Bay. During March 2002, Gulfport began to fulfill its yearly plugging commitment of 20 wells at WCBB for the twelve month period ending, March 2002.

Texaco Global Settlement

Pursuant to the terms of a global settlement between Texaco and the State of Louisiana which includes the State Lease No. 50 portion of Gulfport's East Hackberry Field, Gulfport was obligated to commence drilling a well or other qualifying development operation on certain non-producing acreage in the field prior to March 1998. Because of prevailing market conditions during 1998, the Company believed it was commercially impractical to shoot seismic or commence drilling operations on the subject property. As a result, Gulfport has agreed to surrender approximately 440 non-producing acres in this field to the State of Louisiana. At December 31, 2001, Gulfport was in the process of releasing these properties to the State of Louisiana.

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Contributions to 401(k) Plan

During 1999, Gulfport sponsored a 401(k) savings plan under which eligible employees could chose to contribute up to 15% of their total compensation on a pre-tax basis, subject to certain IRS limits. Gulfport did not incur any expense related to this plan during the year ended December 31, 1999. On February 17, 1999, this 401(k) savings plan was terminated and all contributions

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were distributed to the participants.

Effective January 1, 2000, Gulfport began sponsoring new 401(k) and Profit Sharing plans under which eligible employees may contribute up to 15% of their total compensation through salary deferrals. Also under these plans, the Company will make a contribution each calendar year on behalf of each employee equal to at least 3% of his or her salary, regardless of the employee's participation in salary deferrals. During the years ended December 31, 2001 and 2000, Gulfport incurred \$20,000 and \$24,000, respectively, in contributions expense related to this plan.

Employment Agreement

At December 31, 2001, Gulfport had an employment agreement with its Chief Executive Officer. This agreement expires June 1, 2004, and calls for an annual salary of \$200,000, which may be adjusted for cost of living increases.

15. CONTINGENCIES

Other Litigation

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

Concentration of Credit Risk

Gulfport operates in the oil and gas industry principally in the state of Louisiana with sales to refineries, re-sellers such as pipeline companies, and local distribution companies. While certain of these customers are affected by periodic downturns in the economy in general or in their specific segment of the oil and gas industry, Gulfport believes that its level of credit-related losses due to such economic fluctuations has been immaterial and will continue to be immaterial to the Company's results of operations in the long term. No bad debt expense was incurred during 2001 or 2000. During 1999, Gulfport incurred bad debts of \$56,000.

The Company maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2001 and 2000, Gulfport held cash in excess of insured limits in these banks totaling \$977,000 and \$3,556,000, respectively.

During the year ended December 31, 2001, approximately 86% of Gulfport's revenues from oil and gas sales were attributable to Gulfmark Energy Inc. During the year ended December 31, 2000, approximately 91% of Gulfport's revenues from oil and gas sales were attributable to two primary customers:

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Black Hills Energy and Equiva Trading Company. During the year ended December 31, 1999, approximately 99% of Gulfport's revenues from oil and gas sales were attributable to five primary customers: Equiva Trading Company, Black Hills Energy Resources, Inc., Flash Oil & Gas Southwest, Inc., Burlington Resources, and Plains All American, Inc.

16. LITIGATION TRUST ENTITY

Pursuant to the Company's 1997 plan of reorganization, all of Gulfport's possible causes of action against third parties (with the exception of certain litigation related to recovery of marine and rig equipment assets and claims against Tri-Deck), existing as of the effective date of that plan, were transferred into a "Litigation Trust" controlled by an independent party for the benefit of most of the Company's existing unsecured creditors. The litigation related to recovery of marine and rig equipment and the Tri-Deck claims were subsequently transferred to the Litigation Trust as described below.

The Litigation Trust was funded by a \$3,000,000 cash payment from the Company, which was made on the effective date of reorganization. Gulfport owns a 12% interest in the Litigation Trust with the other 88% being owned by the former general unsecured creditors of Gulfport. For financial statement reporting purposes, Gulfport has not recognized the potential value of recoveries which may ultimately be obtained, if any, as a result of the actions of the Litigation Trust, treating the entire \$3,000,000 payment as a reorganization cost at the time of Gulfport's reorganization.

On January 20, 1998, Gulfport and the Litigation Trust entered into a Clarification Agreement whereby the rights to pursue various claims reserved by Gulfport under the plan of reorganization were assigned to the Litigation Trust. In connection with this agreement, the Litigation Trust agreed to reimburse the Company \$100,000 for legal fees Gulfport had incurred in connection these claims. As additional consideration for the contribution of this claim to the Litigation Trust, Gulfport is entitled to 20% to 80% of the net proceeds from these claims.

There were no funds received from the Litigation Trust during the year ended December 31, 2001 and 2000. During 1999, Gulfport received \$1,342,000 in proceeds from the Litigation Trust.

17. SUBSEQUENT EVENT

In March 2002, the Company commenced a Private Placement Offering of \$10.0 million dollars consisting of 10,000 Units. Each Unit consists of (i) one (1) share of Cumulative Preferred Stock, Series A, of the Company (Preferred) and (ii) a warrant to purchase up to 250 shares of common stock, par value \$0.01 per share. Dividends shall accrue on the Preferred Stock prior to the Mandatory Redemption Date (as defined below) at the rate of 12% per annum payable quarterly in cash or, at the option of the Company for a period not to exceed two (2) years from the Closing Date, payable in whole or in part in additional shares of the Preferred based on the Liquidation Preference (as defined below) of the Preferred at the rate of 15% per annum. No other dividends shall be declared or shall accrue on the Preferred. To the extent funds are legally available, the Company is obligated to declare and pay the dividends on the Preferred. The Warrants have a term of ten (10) years and an exercise price of \$4.00. The Company is required to redeem the Preferred on the fifth anniversary of the first issuance and the Company may at its sole option, choose to redeem the Preferred at any time before the expiration of the five years.

Two-thirds of the Preferred Stockholders can affect any Company action which would effect their preference position. The Preferred cannot be sold or transferred by its holders and the Company must use its best efforts to register with the Securities and Exchange Commission ("SEC") the common stock issued in connection with the exercise of the Warrants or, if possible, piggyback the issued common stock if the Company participates in a public offering with the SEC.

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The Offering was made available to stockholders and affiliates of the Company as of December 31, 2001 who were known to be accredited investors by the Company. Purchasers were able to participate up to their pro rata share of ownership in the Company as of December 31, 2001. The Offering's initial closing will begin March 29, 2002 and will continue until April 15, 2002. Mike Liddell, the Company's Chief Executive Officer, shall have until September 30, 2002 to subscribe for his proportionate share of the Offering.

On March 29, 2002, Gulfport Funding, LLC, participated in the Offering through a conversion of its \$3.0 million dollar loan along with the accumulated interest due from the Company for 3,262.98 Units. Additionally, on March 29, 2002, entities controlled by the majority shareholder initially funded a share of the Preferred Offering in the amount of \$2,738,000.

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18. SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES (UNAUDITED)

The following is historical revenue and cost information relating to the Company's oil and gas operations located entirely in the southeastern United States:

Capitalized Costs Related to Oil and Gas Producing Activities

| | 2001 | 2000 |
|--|----------------|---------------|
| | ----- | ----- |
| Proven Properties | \$ 103,344,000 | \$ 90,640,000 |
| Accumulated depreciation, depletion Amortization and impairment reserve | (68,685,000) | (65,173,000) |
| | ----- | ----- |
| Proven properties, net | \$ 34,659,000 | \$ 25,467,000 |
| | ===== | ===== |

Costs Incurred in Oil and Gas Property Acquisition and Development Activities

| | 2001 | 2000 | 1999 |
|-------------|--------------|-------------|-------------|
| | ----- | ----- | ----- |
| Acquisition | \$ - | \$ - | \$ 337,000 |
| Development | 12,704,000 | 6,505,000 | 6,803,000 |
| | ----- | ----- | ----- |
| Total | \$12,704,000 | \$6,505,000 | \$7,140,000 |
| | ===== | ===== | ===== |

Results of Operations for Producing Activities

The following schedule sets forth the revenues and expenses related to the production and sale of oil and gas. The income tax expense is calculated by

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applying the current statutory tax rates to the revenues after deducting costs, which include depreciation, depletion and amortization allowances, after giving effect to the permanent differences. The results of operations exclude general office overhead and interest expense attributable to oil and gas production.

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GULFPORT ENERGY CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999 CONTINUED

| | 2001 | 2000 | 1999 |
|---------------------------|--------------|--------------|--------------|
| | ----- | ----- | ----- |
| Revenues | \$15,458,000 | \$16,117,000 | \$10,018,000 |
| Production costs | (6,517,000) | (6,732,000) | (4,640,000) |
| Depletion | (3,512,000) | (3,125,000) | (3,410,000) |
| | ----- | ----- | ----- |
| | 5,429,000 | 6,260,000 | 1,968,000 |
| | ----- | ----- | ----- |
| Income tax expense | | | |
| Current | 2,172,000 | 2,504,000 | 781,000 |
| Deferred | (2,172,000) | (2,504,000) | (781,000) |
| | ----- | ----- | ----- |
| | - | - | - |
| | ----- | ----- | ----- |
| Results of operations | | | |
| from producing activities | \$ 5,429,000 | \$ 6,260,000 | \$ 1,968,000 |
| | ===== | ===== | ===== |

Oil and Gas Reserves

The following table presents estimated volumes of proven and proven undeveloped oil and gas reserves as of December 31, 2001, 2000, and 1999 and changes in proven reserves during the last three years, assuming continuation of economic conditions prevailing at the end of each year. Volumes for oil are stated in thousands of barrels (MBbls) and volumes for gas are stated in millions of cubic feet (MMCF). The weighted average prices at December 31, 2001 used for reserve report purposes are \$16.75 and \$2.65, adjusted by lease for transportation fees and regional price differentials, for oil and gas reserves, respectively.

Gulfport emphasizes that the volumes of reserves shown below are estimates which, by their nature, are subject to revision. The estimates are made using all available geological and reservoir data, as well as production performance data. These estimates are reviewed annually and revised, either upward or downward, as warranted by additional performance data.

| | 2001 | | 2000 | | 1999 |
|-----------------|-------|-----|-------|-----|-------|
| | ----- | | ----- | | ----- |
| Oil | ----- | Oil | ----- | Oil | ----- |
| Gas | ----- | Gas | ----- | Gas | ----- |
| | ----- | | ----- | | ----- |
| Proven Reserves | | | | | |

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| | | | | | | |
|---|--------|--------|---------|--------|--------|-------|
| Beginning of the period | 22,098 | 18,188 | 25,923 | 6,264 | 24,282 | 3,331 |
| Purchases in oil and gas reserves in place | - | - | - | - | 1,594 | 2,762 |
| Extensions, discoveries and other additions | | | - | - | - | - |
| Revisions of prior reserve estimates | 3,320 | 6,608 | (3,295) | 12,007 | 641 | 297 |
| Current production | (595) | (71) | (530) | (83) | (594) | (126) |
| Sales of oil and gas reserves in place | - | - | - | - | - | - |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| End of period | 24,823 | 24,725 | 22,098 | 18,188 | 25,923 | 6,264 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Proven developed reserves | 3,745 | 3,499 | 3,066 | 2,077 | 6,606 | 2,073 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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GULFPORT ENERGY CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999 CONTINUED

Discounted Future Net Cash Flows

Estimates of future net cash flows from proven oil and gas reserves were made in accordance with SFAS No. 69, "Disclosures about Oil and Gas Producing activities." The following tables present the estimated future cash flows, and changes therein, from Gulfport's proven oil and gas reserves as of December 31, 2001, 2000, and 1999, assuming continuation of economic conditions prevailing at the end of each year.

Standardized Measure of Discounted Future Net Cash Flows Relating to Proven Oil and Gas Reserves

| | YEAR ENDED DECEMBER 31, | | |
|--|-------------------------|----------------|----------------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| Future cash flows | \$ 522,246,000 | \$ 763,942,000 | \$ 676,056,000 |
| Future development costs | (132,310,000) | (118,857,000) | (132,708,000) |
| Future production costs | (88,373,000) | (93,817,000) | (91,705,000) |
| Future production taxes | (53,247,000) | (67,349,000) | (83,392,000) |
| | ----- | ----- | ----- |
| Future net cash flows before income taxes | 248,316,000 | 483,919,000 | 368,251,000 |
| 10% discount to reflect timing of cash flows | (117,919,000) | (203,025,000) | (222,896,000) |
| | ----- | ----- | ----- |
| Discounted future net cash flows | 130,397,000 | 280,894,000 | 145,355,000 |
| Future income taxes, net of 10% discount | (1,475,000) | (68,037,000) | (14,602,000) |
| | ----- | ----- | ----- |

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| | | | |
|--|----------------|----------------|----------------|
| Standardized measure of discounted future net cash flows | \$ 128,922,000 | \$ 212,857,000 | \$ 130,753,000 |
| | ===== | ===== | ===== |

Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proven Oil and Gas Reserves

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|----------------|----------------|
| | 2001 | 2000 | 1999 |
| Sales and transfers of oil and gas produced, net of | | | |
| production costs | \$ (8,941,000) | \$ (9,386,000) | \$ (5,378,000) |
| Net changes in prices and production costs | (344,592,000) | 104,539,000 | 113,060,000 |
| Acquisition of oil and gas reserves in place, less related production costs | - | - | 4,978,000 |
| Extensions, discoveries and improven recovery, less related costs | - | - | - |
| Revisions of previous quantity estimates, less related production costs | 117,930,000 | 20,515,000 | 3,722,000 |
| Sales of reserves in place | - | - | - |
| Accretion of discount | 85,106,000 | 19,871,000 | 1,550,000 |
| Net changes in income taxes | 66,562,000 | (53,435,000) | (14,602,000) |
| Other | - | - | - |
| | ----- | ----- | ----- |
| Total change in standardized measure of discounted future net cash flows | \$ (83,935,000) | \$ 82,104,000 | \$103,330,000 |
| | ===== | ===== | ===== |

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GULFPORT ENERGY CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999 CONTINUED

Comparison of Standardized Measure of Discounted Future Net Cash Flows to the Net Carrying Value of Proven Oil and Gas Properties at December 31, 2001 and 2000 is as follows:

| | 2001 | 2000 |
|---|---------------|---------------|
| | ----- | ----- |
| Standardized measure of discounted future and net cash flows | \$130,397,000 | \$280,894,000 |

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| | | |
|---|---------------|---------------|
| Proven oil and gas properties | 103,344,000 | 90,640,000 |
| Less accumulated depreciation, depletion, amortization and impairment reserve | (68,685,000) | (65,173,000) |
| Net carrying value of proven oil and gas properties | 34,659,000 | 25,467,000 |
| | ----- | ----- |
| Standardized measure of discounted future net cash flows in excess of net carrying value of proven oil and gas properties | \$ 95,738,000 | \$255,427,000 |
| | ===== | ===== |

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EXHIBIT 10.3

John N. Huff
Vice President
Energy Banking
(405) 272-2028
Fax 272-2588
jhuff@bokf.com

February 1, 2001

Mr. Mike Liddell
Gulfport Energy Corporation
6307 Waterford Blvd., Suite 100
Oklahoma City, OK 73118

Re: Loan Agreement Covenants

Dear Mike,

This letter is written to evidence our mutual understanding between Gulfport Energy Corporation ("Borrower") and Bank of Oklahoma ("Bank") regarding a \$1,760,000 loan to Gulfport Energy Corporation. Borrower agrees to the following conditions in connection with its obligation to Bank of Oklahoma:

1. Any proceeds from the sale of oil/gas properties having an aggregate selling price in excess of \$100,000 will be applied to the loan balance.
2. Borrower will not encumber any oil and gas producing properties.
3. No material changes in the ownership of Gulfport without Bank consent.
4. Current assets divided by current liabilities, exclusive of obligations to Bank shall exceed 1.0 at all times.
5. Borrower's indebtedness other than trade payables incurred in the

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- ordinary course of business and excluding all loans from Bank of Oklahoma is limited to \$100,000 without prior Bank consent.
6. Borrower will not pay any dividends or redeem any shares without prior Bank consent.
 7. Borrower will maintain its primary depository accounts with the Bank.

Please sign below as your acceptance of these terms and conditions.

We appreciate the opportunity to provide you with this credit facility.

Very truly yours,

John N. Huff
Vice President

Agreed and accepted this _____ day of February 2001.

For the Borrower:

By:

Mike Liddell, Chief Executive Officer