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GULFPORT ENERGY CORP
Form 10-Q
November 14, 2001

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

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

COMMISSION FILE NUMBER 1-10753

GULFPORT ENERGY CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware 73-1521290
(State or other jurisdiction of I.R.S. Employer
incorporation or organization Identification No.)

6307 Waterford Blvd.
Building D, 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)

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

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 and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

The number of shares of the Registrant's Common Stock, \$0.01 par value, outstanding as of November 14, 2001 was 10,146,566.

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GULFPORT ENERGY CORPORATION

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FORM 10-Q QUARTERLY REPORT

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GULFPORT ENERGY CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
September 30, 2001 and 2000

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Forming a part of Form 10-Q Quarterly Report to the
Securities and Exchange Commission

This quarterly report on Form 10-Q should be read in conjunction with Gulfport Energy Corporation's Annual Report on Form 10-K for the year ended December 31, 2000.

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GULFPORT ENERGY CORPORATION

BALANCE SHEETS

| | September 30, 2001 | December 31, 2000 |
|--|-----------------------|----------------------|
| | ----- (Unaudited) | ----- |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,613,000 | \$ 3,657,000 |
| Accounts receivable - related party | 239,000 | - |
| Accounts receivable, net of allowance for doubtful accounts of \$239,000 and \$244,000 as of September 30, 2001 and December 31, 2000, respectively | 1,692,000 | 3,608,000 |
| Prepaid expenses and other current assets | 179,000 | 171,000 |
| Total current assets | ----- 3,723,000 | ----- 7,436,000 |
| Property and equipment: | | |
| Oil and natural gas properties | 102,511,000 | 90,640,000 |
| Other property and equipment | 1,969,000 | 1,919,000 |
| Accumulated depletion, depreciation, amortization | (68,627,000) | (65,867,000) |
| | ----- | ----- |

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| | | |
|---|---------------|---------------|
| Property and equipment, net | 35,853,000 | 26,692,000 |
| | ----- | ----- |
| Other assets | 2,520,000 | 2,050,000 |
| | ----- | ----- |
| | \$ 42,096,000 | \$ 36,178,000 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 4,970,000 | \$ 6,426,000 |
| Note payable - related party | 3,000,000 | - |
| Current maturities of long-term debt | 1,341,000 | 878,000 |
| | ----- | ----- |
| Total current liabilities | 9,311,000 | 7,304,000 |
| | ----- | ----- |
| Long-term debt | 242,000 | 301,000 |
| | ----- | ----- |
| Total liabilities | 9,553,000 | 7,605,000 |
| | ----- | ----- |
| Commitments and contingencies | - | - |
| Stockholders' equity: | | |
| Preferred stock - \$.01 par value, 1,000,000 authorized, none issued | - | - |
| Common stock - \$.01 par value, 15,000,000 authorized, 10,146,566 and 10,145,400 issued and outstanding at September 30, 2001 and December 31, 2000, respectively | 101,000 | 101,000 |
| Paid-in capital | 84,192,000 | 84,190,000 |
| Accumulated (deficit) | (51,750,000) | (55,718,000) |
| | ----- | ----- |
| Total stockholders' equity | 32,543,000 | 28,573,000 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 42,096,000 | \$ 36,178,000 |
| | ===== | ===== |

See accompanying notes to financial statements.

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GULFPORT ENERGY CORPORATION
STATEMENTS OF INCOME
(Unaudited)

| | |
|---------------------|---------------------|
| Three Months | Nine Months |
| Ended September 30, | Ended September 30, |
| ----- | ----- |

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| | 2001 | 2000 | 2001 | 2000 |
|--|--------------|-------------|--------------|--------------|
| Revenues: | | | | |
| Gas sales | \$ 56,000 | \$ 86,000 | \$ 222,000 | \$ 263,000 |
| Oil and condensate sales | 4,068,000 | 3,933,000 | 12,245,000 | 10,842,000 |
| Other income | 58,000 | 36,000 | 118,000 | 231,000 |
| | 4,182,000 | 4,055,000 | 12,585,000 | 11,336,000 |
| Costs and expenses: | | | | |
| Operating expenses | 1,059,000 | 1,415,000 | 3,630,000 | 3,864,000 |
| Production taxes | 447,000 | 408,000 | 1,391,000 | 1,094,000 |
| Depreciation, depletion, and amortization | 991,000 | 761,000 | 2,787,000 | 2,241,000 |
| General and administrative | 273,000 | 355,000 | 1,132,000 | 1,073,000 |
| | 2,770,000 | 2,939,000 | 8,940,000 | 8,272,000 |
| INCOME FROM OPERATIONS: | 1,412,000 | 1,116,000 | 3,645,000 | 3,064,000 |
| OTHER (INCOME) EXPENSE: | | | | |
| Gain on settlement of disputed amounts | - | - | (482,000) | - |
| Interest expense | 103,000 | 136,000 | 274,000 | 527,000 |
| Interest income | (28,000) | (72,000) | (115,000) | (244,000) |
| | 75,000 | 64,000 | (323,000) | 283,000 |
| INCOME BEFORE INCOME TAXES | 1,337,000 | 1,052,000 | 3,968,000 | 2,781,000 |
| INCOME TAX EXPENSE (BENEFIT): | | | | |
| Current | 535,000 | 389,000 | 1,587,000 | 1,029,000 |
| Deferred | (535,000) | (389,000) | (1,587,000) | (1,029,000) |
| | - | - | - | - |
| NET INCOME | \$ 1,337,000 | \$1,052,000 | \$ 3,968,000 | \$ 2,781,000 |
| NET INCOME PER COMMON SHARE: | | | | |
| Basic | \$ 0.13 | \$ 0.10 | \$ 0.39 | \$ 0.27 |
| Diluted | \$ 0.13 | \$ 0.10 | \$ 0.38 | \$ 0.27 |

See accompanying notes to financial statements.

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(Unaudited)

| | Preferred Stock | Common Shares | Stock Amount | Additional Paid-in Capital | Accumulated (Deficit) |
|-------------------------------|--------------------|------------------|-----------------|----------------------------------|--------------------------|
| Balance at December 31, 1999 | \$ - | 10,145,400 | \$101,000 | \$84,190,000 | \$(60,177,000) |
| Net income | - | - | - | - | 2,781,000 |
| Balance at September 30, 2000 | \$ - | 10,145,400 | \$101,000 | \$84,190,000 | \$(57,396,000) |
| Balance at December 31, 2000 | \$ - | 10,145,400 | \$101,000 | \$84,190,000 | \$(55,718,000) |
| Common shares issued | - | 1,166 | - | 2,000 | - |
| Net income | - | - | - | - | 3,968,000 |
| Balance at September 30, 2001 | \$ - | 10,146,566 | \$101,000 | \$84,192,000 | \$(51,750,000) |

See accompanying notes to financial statements.

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GULFPORT ENERGY CORPORATION
Statements of Cash Flows
(Unaudited)

| | For the Nine Months Ended September 30, | |
|--|--|--------------|
| | 2001 | 2000 |
| Cash flows from operating activities: | | |
| Net income | \$ 3,968,000 | \$ 2,781,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depletion, depreciation and amortization | 2,760,000 | 2,241,000 |
| Amortization of debt issuance costs | 27,000 | 16,000 |
| Changes in operating assets and liabilities: | | |
| (Increase) in accounts receivable - related party | (239,000) | - |
| Decrease (increase) in accounts receivable | 1,916,000 | (487,000) |
| (Increase) in prepaid expenses | (35,000) | (33,000) |
| (Decrease) increase in accounts payable and accrued liabilities | (1,457,000) | 79,000 |
| Net cash provided by operating activities | 6,940,000 | 4,597,000 |

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| | | |
|---|--------------|--------------|
| | ----- | ----- |
| Cash flows from investing activities: | | |
| (Additions to) cash held in escrow | (469,000) | (49,000) |
| Reductions in other assets | - | 239,000 |
| (Additions to) other property, plant and equipment | (50,000) | (41,000) |
| Proceeds from sale of oil and gas equipment | - | 100,000 |
| (Additions to) oil and gas properties | (11,871,000) | (5,660,000) |
| | ----- | ----- |
| Net cash used in investing activities | (12,390,000) | (5,411,000) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Borrowings on note payable - related party | 3,000,000 | - |
| Borrowings on note payable | 960,000 | 1,600,000 |
| Principal payments on borrowings | (556,000) | (3,191,000) |
| Proceeds from issuance of common stock | 2,000 | - |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 3,406,000 | (1,591,000) |
| | ----- | ----- |
| Net (decrease) in cash and cash equivalents | (2,044,000) | (2,405,000) |
| Cash and cash equivalents at beginning of period | 3,657,000 | 5,664,000 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 1,613,000 | \$ 3,259,000 |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Interest payments | \$ 81,000 | \$ 203,000 |
| | ===== | ===== |

See accompanying notes to financial statements.

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GULFPORT ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

These condensed financial statements have been prepared by Gulfport Energy Corporation (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments, which are in the opinion of management, necessary for a fair statement of the results for the interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financials statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes thereto included in the Company's most recent annual report on Form 10-K.

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1. ACCOUNTS RECEIVABLE - RELATED PARTY

Included in the accompanying September 30, 2001 balance sheet are amounts receivable from entities that have some common control with 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 \$239,000 billed to the companies for performance of these services.

2. PROPERTY AND EQUIPMENT

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

| | September 30, 2001 | December 31, 2000 |
|---|--------------------|-------------------|
| Oil and gas properties | \$ 102,511,000 | \$ 90,640,000 |
| Office furniture and fixtures | 1,492,000 | 1,442,000 |
| Building | 217,000 | 217,000 |
| Land | 260,000 | 260,000 |
| | ----- | ----- |
| Total property and equipment | 104,480,000 | 92,559,000 |
| Accumulated depreciation, depletion, amortization and impairment reserve | (68,627,000) | (65,867,000) |
| | ----- | ----- |
| Property and equipment, net | \$ 35,853,000 | \$ 26,692,000 |
| | ===== | ===== |

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GULFPORT ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Unaudited)

3. OTHER ASSETS

Other assets consist of the following:

| | September 30, 2001 | December 31, 2000 |
|---|--------------------|-------------------|
| Plugging and abandonment escrow account on the WCBB properties | \$ 2,209,000 | \$ 1,739,000 |
| CD's securing letter of credit | 200,000 | 200,000 |
| Deposits | 111,000 | 111,000 |
| | ----- | ----- |
| | \$ 2,520,000 | \$ 2,050,000 |
| | ===== | ===== |

4. LONG-TERM DEBT

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The building loan of \$153,000 relates to a building in Lafayette, Louisiana, purchased in 1996 to be used as the Company'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 the Company to provide office space for Louisiana personnel, have access to meeting space close to the fields and to maintain a corporate presence in Louisiana.

A break down of long-term debt is as follows:

| | September 30, 2001 | December 31, 2000 |
|-----------------------|--------------------|-------------------|
| | ----- | ----- |
| Note payable | \$ 1,430,000 | \$ 1,000,000 |
| Building loan | 153,000 | 179,000 |
| | ----- | ----- |
| | 1,583,000 | 1,179,000 |
| Less: current portion | 1,341,000 | 878,000 |
| | ----- | ----- |
| Long-term debt | \$ 242,000 | \$ 301,000 |
| | ===== | ===== |

During the first quarter of 2001, the Company refinanced amounts due on its note payable. Under the terms of the new agreement, the Company was extended a commitment to borrow up to a total of \$1,760,000. Amounts borrowed are to be repaid through monthly principal payments of \$110,000 beginning July 1, 2001, with any remaining outstanding principal due October 1, 2002. The refinanced note bears interest at Chase Manhattan Prime rate plus 1%. During April 2001, the Company borrowed the additional \$960,000 available under this commitment.

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GULFPORT ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Unaudited)

5. 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 is wholly owned by one of the Company's stockholders. 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 September 30, 2001, the Company had 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

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time increases the number of outstanding shares or otherwise adjusts its capitalization.

6. 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 included in the accompanying statement of income for the nine-month period ending September 30, 2001, as "Gain on settlement of disputed amounts".

7. EARNINGS PER SHARE

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

| | For the Three Months Ended September 30, | | | | | |
|--|--|---------------------|------------------|----------------------|---------------------|-----------------|
| | 2001 | | | 2000 | | |
| | Income | Shares | Per Share | Income | Shares | Per Share |
| Basic: | | | | | | |
| Income attributable to common stock | \$1,337,000 | 10,146,566 | \$ 0.13 ===== | \$1,052,000 | 10,145,400 | \$0.10 ===== |
| Effect of dilutive securities: | | | | | | |
| Stock options | - | 325,187 | | - | 319,470 | |
| Diluted: | | | | | | |
| Income attributable to common stock, after assumed dilutions | \$1,337,000 ===== | 10,471,753 ===== | \$ 0.13 ===== | \$1,052,000 ===== | 10,464,870 ===== | \$0.10 ===== |

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GULFPORT ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
(Unaudited)

| | For the Nine Months Ended September 30, | | | | | |
|---------------|---|--------|-----------|--------|--------|-----------|
| | 2001 | | | 2000 | | |
| | Income | Shares | Per Share | Income | Shares | Per Share |
| Basic: | | | | | | |

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| | | | | | | |
|--|-------------|------------|---------|-------------|------------|--------|
| Income attributable to common stock | \$3,968,000 | 10,145,960 | \$ 0.39 | \$2,781,000 | 10,145,400 | \$0.27 |
| | | | ===== | | | ===== |
| Effect of dilutive securities: | | | | | | |
| Stock options | - | 345,081 | | - | 232,276 | |
| | ----- | ----- | | ----- | ----- | |
| Diluted: | | | | | | |
| Income attributable to common stock, after assumed dilutions | \$3,968,000 | 10,491,041 | \$ 0.38 | \$2,781,000 | 10,377,676 | \$0.27 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

Common stock equivalents not included in the calculation of diluted earnings per share above consists of 1,163,195 warrants issued at the time of the Company's reorganization. Also not included in the calculation of 2001 diluted earnings per share are 108,625 warrants issued in connection with the Company's revolving line of credit with Gulfport Funding, as discussed in Note 5. These potential common shares were not considered in the calculation due to their anti-dilutive effect during the periods presented.

8. COMMITMENTS

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 September 30, 2001, the plugging and abandonment trust totaled \$2,209,000, including interest received during 2001 of approximately \$55,000.

During March 2001, Gulfport intended to begin to fulfill its yearly plugging commitment of 20 wells at WCBB for the twelve month period ending March 2001. Due to equipment and crew unavailability however, this activity commenced in the third quarter of 2001. 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.

9. RECLASSIFICATION

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL POSITION AND RESULTS OF OPERATIONS
DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). All statements, other than statements of historical facts, included in this Form 10-Q that address activities, events or developments that Gulfport Energy Corporation ("Gulfport" or the "Company"), a Delaware corporation, expects or

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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 strengths, goals, expansion and growth of the Company's business and operations, plans, references to future success, references 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 the Company 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 the Company'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 the Company; competitive actions by other oil and gas companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized, or even if realized, that they will have the expected consequences to or effects on the Company or its business or operations.

The following discussion is intended to assist in an understanding of the Company's financial position as of September 30, 2001 and its results of operations for the three and nine-month periods ended September 30, 2001 and 2000. The Financial Statements and Notes included in this report contain additional information and should be referred to in conjunction with this discussion. It is presumed that the readers have read or have access to Gulfport Energy Corporation's 2000 annual report on Form 10-K.

Overview

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 \$51.2 million dollars on November 9, 2001 and generated EBITDA of \$6.5 and \$5.5 million dollars for the nine months ended September 30, 2001 and September 30, 2000, respectively.

The Company is currently consulting with its financial advisors to determine how to take advantage of the current markets whether through internal value creation or a capital markets transaction which could include the sale of all or a part of the Company.

As of January 1, 2001, the Company had in excess of 25 MMBOE proved reserves with a present value (discounted at 10%) of estimated future net reserves of \$280 million dollars.

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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 its existing fields.

The Company's operations are concentrated in two fields: West Cote Blanche Bay and the Hackberry Fields.

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West Cote Blanche Bay

West Cote Blanche Bay ("WCBB") Field lies approximately five miles off the coast of Louisiana primarily in St. Mary's Parish in a shallow bay, with water depths averaging eight to ten feet. WCBB overlies one of the largest salt dome structures in the Gulf Coast. There are over 100 distinct sandstone reservoirs throughout most of the field and nearly 200 major and minor discrete intervals have been tested. Within almost 900 wellbores that have been drilled to date in the field, over 4,000 potential zones have been penetrated. The sands are highly porous and permeable reservoirs primarily with a strong water drive.

Estimated cumulative field gross production as of January 1, 2001 is 190 MBO and 232 BCF of gas. There have been 871 wells drilled at WCBB, and of these 42 are currently producing, 297 are shut-in and 5 are utilized as salt water disposal wells. The balance of the wells (or 532) have been plugged and abandoned. During September 2001, Gulfport's net current daily production in this field averaged 1,438 barrels of oil equivalent.

During April 2001, Gulfport finished the seven well drilling program it 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. The Company has plans to begin another two to three intermediate depth well drilling program during the first quarter of 2002. Gulfport had originally planned to begin this drilling program in October 2001, but postponed the project to take advantage of the declining drilling rig rates and related services.

Gulfport has an ongoing plan to review and increase production from existing marginal and non-producing wells. Since January of 2001, the Company has worked over or recompleted eight wells in order to restore or increase production. Gulfport has several additional workovers and recompletions scheduled for the remainder of the year.

Gulfport also has an ongoing program to modernize and service the existing production facilities at West Cote Blanche Bay. Since the beginning of the second quarter the Company has put two new gas compressors into full time service at the field replacing two outdated compressors. The new compressors increased efficiency and together with a new header valve Gulfport installed at

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one of the tank batteries reduced the Company's gas usage by 50%. Gulfport is in the process of back flowing and cleaning sand from the five salt-water disposal wells at West Cote Blanche Bay, which will allow the wells to handle a higher volume of water.

During October, 2001, Gulfport completed the yearly program to meet its plugging liability. The Company plugged 26 non-producing wells at West Cote Blanche Bay.

Hackberry Fields

The Hackberry fields are located along the shore of Lake Calcasieu in Cameron Parish, Louisiana. The Hackberry Field is a major salt intrusive feature, elliptical in shape with East Hackberry on the east end of the ridge with West Hackberry located on the western end of the ridge. There are over 30

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pay zones in this field. The salt intrusion at East Hackberry trapped Oligocene through Lower Miocene rocks in a series of complex, steeply dipping fault blocks. The Camerina sand series at East Hackberry is a prolific producer with 1-2 MMBL per well oil potential. West Hackberry consists of a series of fault bounded traps in the Oligocene-age Vincent and Keough sands associated with the Hackberry Salt Ridge.

The East Hackberry field was discovered in 1926 by Gulf Oil Company (now Chevron 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 1999 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 13 having current daily production; 3 produce intermittently; 77 wells are shut-in and 4 wells have been converted to salt water disposal wells. The remaining 73 wells have been plugged and abandoned.

At West Hackberry, the first discovery well 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 2000 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 3 are producing, 24 are shut-in and 1 well has been converted to a saltwater disposal well. The remaining 8 wells have been plugged and abandoned. During the first quarter of 2001, Gulfport unsuccessfully sidetracked an existing non-producing well at West Hackberry and conducted remedial operations to increase production.

During the 3rd quarter of 2001 Gulfport tested 22 shut-in wells on the State Lease 50 portion of East Hackberry Field to check the viability of putting these wells back into production. After the tests were completed the Company elected to reactivate seven of the 22 wells that were tested. To put the wells back on production certain parts of the field's infrastructure had to be repaired or replaced. Gulfport repaired the main gas lift supply line in order to reactivate a satellite tank battery at State Lease 50 and made other minor repairs to the battery. The Company also repaired and or replaced flow lines and gas lift lines to the seven wells that were restored to production.

Gulfport also performed an unsuccessful coiled tubing job on a well at State Lease 50 during early 2001 and plans to re-complete the well during the 4th quarter of 2001. The Company also plans on recompleting two additional

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wells at State Lease 50 during the 4th quarter of 2001, both of these additional operations involve dredging and the dredging permits have only recently been approved.

Gulfport's continued plan of development includes the testing of additional wells that are currently inactive, mostly in the southern portion of State Lease 50, which will also entail dredging. These additional tests should allow the Company to restore more wells to productive status in the near future.

Gulfport plans to plug four wells located on State Lease 50 during the fourth quarter of 2001.

Total net production per day for both Hackberry fields was 340 barrels of oil equivalent per day for the nine month period ended September 30, 2001.

Third Quarter Overview

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Gulfport's main focus during the third quarter was the testing of inactive wells and facility upgrades at the State Lease 50 portion of the East Hackberry Field. The Company tested 22 shut-in wells at State Lease 50 and placed seven of the wells back on production. Gulfport repaired the main gas lift supply line, reactivated a satellite tank battery and made several other repairs to the production facilities at State Lease 50.

The Company also continued to perform workovers and recompletions at the West Cote Blanche Bay Field.

The following financial table recaps the Company's operating activity for the three and nine month periods ended September 30, 2001 as compared to the same periods in 2000.

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FINANCIAL DATA (unaudited):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| Revenues: | | | | |
| Gas sales | \$ 56,000 | \$ 86,000 | \$ 222,000 | \$ 263,000 |
| Oil and condensate sales | 4,068,000 | 3,933,000 | 12,245,000 | 10,842,000 |
| Other income | 86,000 | 108,000 | 233,000 | 475,000 |
| | 4,210,000 | 4,127,000 | 12,700,000 | 11,580,000 |
| Expenses: | | | | |
| Operating expenses | 1,059,000 | 1,415,000 | 3,630,000 | 3,864,000 |
| Production taxes | 447,000 | 408,000 | 1,391,000 | 1,094,000 |
| General and administrative | 273,000 | 355,000 | 1,132,000 | 1,073,000 |
| | 1,779,000 | 2,178,000 | 6,153,000 | 6,031,000 |
| Depreciation, depletion and amortization | 983,000 | 761,000 | 2,787,000 | 2,241,000 |
| Income before interest and taxes | 1,448,000 | 1,188,000 | 3,760,000 | 3,308,000 |
| Gain on settlement of disputed amounts | - | - | 482,000 | - |

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| | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|
| Interest expense | (111,000) | (136,000) | (274,000) | (527,000) |
| | ----- | ----- | ----- | ----- |
| Income before income taxes | 1,337,000 | 1,052,000 | 3,968,000 | 2,781,000 |
| Income tax expense (benefit): | | | | |
| Current | 534,800 | 389,000 | 1,587,000 | 1,029,000 |
| Deferred | (534,800) | (389,000) | (1,587,000) | (1,029,000) |
| | ----- | ----- | ----- | ----- |
| | - | - | - | - |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 1,337,000 | \$ 1,052,000 | \$ 3,968,000 | \$ 2,781,000 |
| | ===== | ===== | ===== | ===== |
| EBITDA (1) | \$ 2,431,000 | \$ 1,949,000 | \$ 6,547,000 | \$ 5,549,000 |
| | ===== | ===== | ===== | ===== |
| Per share data: | | | | |
| Net income | \$ 0.13 | \$ 0.10 | \$ 0.39 | \$ 0.27 |
| | ===== | ===== | ===== | ===== |
| Weighted average common shares | 10,146,566 | 10,145,400 | 10,145,960 | 10,145,400 |
| | ===== | ===== | ===== | ===== |

(1) EBITDA is defined as earnings before interest, taxes, depreciation, depletion and amortization. EBITDA is an analytical measure frequently used by securities analysts and is presented to provide additional information about the Company's ability to meet its future debt service, capital expenditure and working capital requirements. EBITDA should not be considered as a better measure of liquidity than cash flow from operations.

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RESULTS OF OPERATIONS

Comparison of the Three Months Ended September 30, 2001 and 2000

During the three months ended September 30, 2001, the Company reported net income of \$1.3 million, a 27% increase from net income of \$1.1 million for the corresponding period in 2000. This increase is primarily due to the following factors:

Oil and Gas Revenues. For the three months ended September 30, 2001, the Company reported oil and gas revenues of \$4.1 million, a slight increase from \$4.0 million for the comparable period in 2000. This increase was due principally to a 26% increase in oil production from 124,000 barrels to 156,000 barrels for the three months ended September 2000 and 2001, respectively. This increase in production was due to the new oil production generated from the Company's drilling program initiated during the first quarter of 2001. The increase in total revenues due to higher production was offset by a decrease in product prices for the three months ended September 30, 2001 as compared to the same period in 2000.

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The following table summarizes the Company's oil and gas production and related pricing for the three months ended September 30, 2001 and 2000:

| | Three Months Ended September 30, | |
|---------------------------------|----------------------------------|---------|
| | 2001 | 2000 |
| | ---- | ---- |
| Oil production volumes (Mbbbls) | 156 | 124 |
| Gas production volumes (Mmcf) | 20 | 20 |
| Average oil price (per Bbl) | \$26.05 | \$31.78 |
| Average gas price (per Mcf) | \$2.81 | \$4.30 |

Operating Expenses. Lease operating expenses decreased \$.36 million from \$1.4 million for the three months ended September 30, 2000 to \$1.1 million for the comparable period in 2001. This decrease was due primarily to a \$.33 million decrease in gas lift costs for the three months ended September 30, 2001 as compared to the same period in 2000. This decrease in gas lift costs was a result of lower volumes of gas used for gas lift during the third quarter of 2001 as compared to the same period in 2000.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization increased \$.22 million from \$.76 million for the three months ended September 30, 2000 to \$.98 million for the comparable period in 2001. This increase was attributable primarily to an increase in production to 159 MBOE's for the three months ended September 30, 2001 as compared to 127 MBOE's for the same period in 2000.

General and Administrative Expenses. General and administrative expenses decreased 23% from \$.36 million for the three months ended September 30, 2000 to \$.27 million for the comparable period in 2001. This decrease is due to a general and administrative expense reimbursement of \$.21 million by entities that have some common control with the Company. Included in this administrative reimbursement amount are costs incurred and offsetting reimbursements recorded during the first, second and third quarters of 2001.

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Interest Expense. Interest expense decreased \$.03 million, or 18%, from \$.14 million for the three months ended September 30, 2000 to \$.11 million for the comparable period in 2001. This decrease was primarily due to the settlement of the disputed amounts with Texaco in April 2001. Previously, the Company was accruing interest expense related to the unsettled and disputed amounts. This decrease was partially offset by an increase in interest expense due to the loan from the related party.

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 \$.53 million was provided for the three month period ended September 30, 2001, which was fully offset by an equal income tax benefit due to operating loss carryforwards.

Comparison of the Nine Months Ended September 30, 2001 and 2000

During the nine months ended September 30, 2001, the Company reported net income of \$4.0 million, a 43% or \$1.2 million increase from net income of \$2.8

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million for the corresponding period in 2000. This increase is primarily due to the following factors:

Oil and Gas Revenues. During the nine months ended September 30, 2001, the Company reported oil and gas revenues of \$12.5 million, an 11% increase from \$11.1 million for the comparable period in 2000. This increase was due principally to an increase in oil production from 364,000 barrels to 445,000 barrels for the nine months ended September 30, 2000 and 2001, respectively. This increase in oil production was due to the new production generated from the Company's drilling program initiated during the first quarter of 2001. The increase in total revenues was slightly offset by a decrease in gas revenues due to lower gas production volumes and lower oil prices for the nine months ended September 30, 2001 as compared to the same period in 2000.

The following table summarizes the Company's oil and gas production and related pricing for the nine months ended September 30, 2001 and 2000:

| | Nine Months Ended September 30, | |
|--------------------------------|---------------------------------|---------|
| | 2001 | 2000 |
| | ---- | ---- |
| Oil production volumes (Mbbls) | 445 | 364 |
| Gas production volumes (Mmcf) | 45 | 90 |
| Average oil price (per Bbl) | \$27.50 | \$29.78 |
| Average gas price (per Mcf) | \$4.96 | \$2.92 |

Operating Expenses. Lease operating expenses decreased by \$.23 million from \$3.9 million for the nine months ended September 30, 2000 to \$3.6 million for the comparable period in 2001. This decrease was due primarily to a decrease of \$.54 million in gas lift costs for the nine months ended September 30, 2001 as compared to the same period in 2000, which was offset by costs incurred for non-capitalized well workovers during the first quarter of 2001. The decrease in gas lift costs was primarily a result of lower volumes of gas used for gas lift during the nine months ended September 30, 2001 as compared to the same period in 2000.

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Depreciation, Depletion and Amortization. Depreciation, depletion and amortization increased \$.55 million from \$2.2 million for the nine months ended September 30, 2000 to \$2.8 million for the comparable period in 2001. This increase was attributable primarily to an increase in production to 453 MBOE's for the nine months ended September 30, 2001 as compared to 379 MBOE's for the same period in 2000.

General and Administrative Expenses. General and administrative expenses increased slightly from \$1.07 million for the nine months ended September 30, 2000 to \$1.13 million for the same period in 2001. This was primarily due to \$.16 million expensed for the NSA engineering report and \$.05 million expensed in brokers' fees during the nine months ended September 30, 2001. No such costs were incurred during the nine months ended September 30, 2000. These expense increases, along with an overall increase in salaries expense for the nine months ended September 30, 2001 were partially offset by administrative reimbursements billed to related parties of \$.21 million.

Interest Expense. Interest expense decreased \$.25 million, or 48%, from \$.53 million for the nine months ended September 30, 2000 to \$.27 million for the comparable period in 2001. This decrease was due to a reduction in average

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debt outstanding for the period ended September 30, 2001, an overall decrease in prevailing interest rates, and the settlement of the disputed amounts with Texaco in April 2001. Previously, the Company was accruing interest expense related to the unsettled and disputed amounts.

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 \$1.59 million was provided for the nine months ended September 30, 2001, which was fully offset by an equal income tax benefit due to operating loss carryforwards.

Gain on Settlement of Disputed Amounts. Effective April of 2001, the Company reached a settlement with Texaco regarding previously disputed amounts. As a result of this settlement, the Company recognized a one-time gain of \$482,000 for the nine months ended September 30, 2001.

Capital Expenditures, Capital Resources and Liquidity

Net cash flow provided by operating activities for the nine month period ended September 30, 2001 was \$6.9 million, as compared to net cash flow provided of \$4.6 million for the comparable period in 2000. This was primarily due to an increase in the Company's net income resulting from the increased levels of production as a result of the Company's drilling program initiated in January 2001 and the gain on the settlement of amounts previously in dispute with Texaco.

Net cash used in investing activities during the nine months ended September 30, 2001 was \$12.4 million as compared to \$5.4 million used during the same period of 2000. This increase was a result of the Company's drilling program it initiated in January 2001 along with other well related capitalized workover activity.

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Net cash provided in financing activities for the nine months ended September 30, 2001 was \$3.4 million as compared to net cash used of \$1.6 million during the same period of 2000. The difference primarily represents the loan from a related third party during the nine months ended September 30, 2001.

Capital Expenditures. During the nine months ended September 30, 2001, Gulfport invested \$11.9 million in oil and gas properties and other property and equipment as compared to \$5.7 million invested during the comparable period in 2000. Of the \$11.9 million the Company spent in the first nine months of 2001, \$8.4 million was spent on drilling and completion activity on new wells and \$3.5 million was spent on workover activity on existing wells.

During the nine month period ended September 30, 2001, Gulfport financed its capital expenditures payment requirements with cash flows provided by operations, borrowings under the Company's credit facilities and borrowings from a related third party.

Gulfport's strategy is to continue to increase cash flows generated by its 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 completed the reprocessing of its 3-D seismic

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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 September 30, 2000. On September 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 September 28, 2000. In April 2001, the Company borrowed the amount remaining and available on its BOK credit facility.

On May 22, 2001, the Company entered in to a revolving line of credit agreement with Gulfport Funding, LLC, ("Gulfport Funding") which is wholly owned by one of the Company's stockholders. 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 four percent. All outstanding principal amounts along with accrued interest are due on February 22, 2002. At September 30, 2001, the Company had borrowed the \$3,000,000 available under this line.

As a result of the completion of the NSA engineering report as of January 1, 2001, the Company has initiated discussions with other banking institutions and is attempting to put in place a larger and longer-term revolving credit facility. The Company cannot be sure however that it will be successful.

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The Company is currently consulting with its financial advisors to determine how to take advantage of the current market whether through internal value creation or a capital markets transaction which could include the sale of all or a part of the Company.

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 Credit Facilities.

In Gulfport's January 1, 2001 reserve report, 86% 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. In the year 2001, Gulfport expects to undertake several intermediate drilling programs. 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 or related third party financing, a long-term credit facility or by accessing the capital markets. The cash flow generated from these new projects will be used to make the Company's required principal payments on its debt with the remainder reinvested in the field to complete more capital projects.

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COMMITMENTS

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 and the plugging and abandonment trust until such time the Company's 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 September 30, 2001, the plugging and abandonment trust totaled \$2,209,000. These funds are invested in a U.S. Treasury Money Market.

During March 2001, Gulfport intended to begin to fulfill its yearly plugging commitment of 20 wells at WCBB for the twelve month period ending March 2001. Due to equipment and crew unavailability, however, this activity commenced in the third quarter of 2001. During October, 2001, Gulfport completed the yearly program to meet its plugging liability. The Company plugged 26 non-producing wells at West Cote Blanche Bay.

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.

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PART II.

OTHER INFORMATION

ITEM 1. 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 effect on the Company's financial condition or results of operations for the periods presented in the financial statements.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

None

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ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

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SIGNATURES

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

GULFPORT ENERGY CORPORATION

Date: November 14, 2001

/s/Mike Liddell

Mike Liddell
Chief Executive Officer

/s/Mike Moore

Mike Moore
Chief Financial Officer

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