

CHINA NORTH EAST PETROLEUM HOLDINGS LTD  
Form 10QSB/A  
November 23, 2005

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

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FORM 10-QSB/A

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- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2004**
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission file number 0-49846

CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED

(Exact name of small business issuer as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation or  
organization)  
20337 Rimview Place, Walnut California  
(Address of principal executive offices)

87-0638750  
(IRS. Employer identification No.)  
91789  
(Zip code)

909-468-2840

(Issuer's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock outstanding as of June 30, 2004: 19,908,822

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PART I**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-QSB to our Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004, originally filed with the United States Securities and Exchange Commission (SEC) on August 19, 2004, is being filed for the purpose of restating our consolidated balance sheet as of June 30, 2004 and our consolidated statements of operations and statements of cash flows and related disclosures for the six months ended June 30, 2004. See Note 11 to the Consolidated Financial Statements for a discussion of the restatement.

This Amendment No. 1 on Form 10-QSB has not been updated for events occurring after the filing of the original Quarterly Report on Form 10-QSB on August 19, 2004, except to reflect the restatement as described above.

The information set forth in the Company's Annual Report on Form 10-KSB reflects the information included in this restatement. Therefore, we have not amended our Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

The following selected consolidated financial data have been derived from our consolidated financial statements. All financial information set forth below reflects the restatement of our financial statements as discussed in Note 11 of the Notes to Consolidated Financial Statements. This data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and "Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations."

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**Condensed Consolidated Balance Sheet**  
**At June 30, 2004 (Unaudited and Restated)**

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**ASSETS**

<b>CURRENT ASSETS</b>		As Restated
Cash and cash equivalents	\$	48,002
Other receivables and prepaid expenses		234,110
Total Current Assets		282,112
<b>OIL AND GAS PROPERTIES, NET</b>		4,833,833
<b>FIXED ASSETS, NET</b>		124,702
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>5,240,647</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$	300,102
Other payables and accrued liabilities		1,792,466
Due to directors and stockholders		2,405,314
Income tax payable		277,546
Total Current Liabilities		4,775,428
<b>COMMITMENTS AND CONTINGENCIES</b>		
		-
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value, 50,000,000 shares authorized, 19,899,080 shares issued and outstanding		19,899
Additional paid-in capital		104,154
Retained earnings		
Unappropriated		341,166
Total Stockholders' Equity		465,219
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>5,240,647</b>

The accompanying notes are an integral part of these condensed consolidated financial statements

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**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED AND SUBSIDIARIES**  
**Condensed Statements of Operations**

**For the three months and six months ended June 30, 2004 (Consolidated) and period from April 1, 2003 (Inception) to June 30, 2003 (Unaudited and Restated)**

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Period from

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	Three months ended June 30,		Six months ended June 30,		April 1, 2003 (Inception) to June 30, 2003
	2004 (As Restated)	2003 (As Restated)	2004 (As Restated)		(As Restated)
<b>REVENUE</b>	\$ 352,377	\$ 73,650	\$ 799,985	\$	73,650
<b>COST OF SALES</b>					
Production cost	94,619	11,806	259,022		11,806
Management fees paid	7,048	1,473	16,000		1,473
Resource tax	2,593	-	6,181		-
Depreciation and amortization	11,609	20	24,149		20
Total cost of sales	115,869	13,299	305,352		13,299
<b>GROSS PROFIT</b>	236,508	60,351	494,633		60,351
<b>OPERATING EXPENSES</b>					
General and administrative expenses	86,903	34,803	108,580		34,803
Consulting fee	180,362	-	180,362		-
Depreciation and amortization	5,852	144	11,205		144
Total Operating Expenses	273,117	34,947	300,147		34,947
<b>INCOME (LOSS) FROM OPERATIONS</b>	(36,609)	25,404	194,486		25,404
<b>OTHER INCOME (EXPENSE)</b>					
Other expenses	-	(4)	(1,449)		(4)
Interest expense	(24,128)	-	(24,126)		-
Interest income	8	-	8		-
Other income	28	23	-		23
Total Other Expenses	(24,092)	19	(25,567)		19
<b>INCOME (LOSS) FROM OPERATIONS BEFORE TAX</b>	(60,701)	25,423	168,919		25,423
<b>INCOME TAX EXPENSE</b>	53,031	8,382	129,293		8,382
<b>NET INCOME (LOSS)</b>	\$ (113,732)	\$ 17,041	\$ 39,626	\$	17,041

Net income (loss) per share-basic and diluted	\$	(0.01)	\$	0.00	\$	0.00	\$	0.00
Weighted average number of shares outstanding during the period								
basic and diluted		19,499,387		18,700,000		19,099,693		18,700,000

The accompanying notes are an integral part of these condensed consolidated financial statements

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**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED AND SUBSIDIARIES**  
**Condensed Statements of Cash Flows**

***For the six months ended June 30, 2004 (Consolidated) and period from April 1, 2003 (Inception) to June 30, 2003 (Unaudited and Restated)***

	2004 (Consolidated) (As restated)	2003 (As restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 39,626	\$ 17,041
Adjusted to reconcile net income to cash (used in) provided		
by operating activities:		
Amortization of oil and gas properties	24,149	20
Depreciation of fixed assets	11,205	144
Imputed interest expense	24,126	-
Changes in operating assets and liabilities (Increase) decrease in:		
Other receivables and prepaid expenses	(94,155)	(319,642)
Increase (decrease) in:		
Accounts payable	(261,537)	-
Other payables and accrued liabilities	(455,698)	1,292
Deferred taxation	(131,493)	-
Income tax payable	260,544	8,380
Net cash used in operating activities	(583,232)	(292,765)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of oil and gas properties	(13,043)	(20,333)
Purchase of fixed assets	-	(3,169)
Net cash used in investing activities	(13,043)	(23,502)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common stock	-	18,700

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Decrease in additional paid-in capital	(504,874)	295,796
Due to a director and stockholder	1,141,452	14,516
Due from a director and stockholder	-	(121)
Net cash provided by financing activities	636,578	328,891
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	40,303	12,624
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	7,699	-
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 48,002	\$ 12,624
Supplemental disclosures of non cash financing activities:		
Imputed interest on advances from directors and stockholders	\$ 24,126	\$ -

The accompanying notes are an integral part of these condensed consolidated financial statements

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**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED  
AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004 (UNAUDITED AND RESTATED)**

**Note 1 - Basis Of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company's financial position at June 30, 2004, the results of operations for the three months and six months ended June 30, 2004 and for the period from April 1, 2003 (Inception) to June 30, 2003, and cash flows for the six months ended June 30, 2004 and period from April 1, 2003 (Inception) to June 30, 2003. The results for the six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2004.

For further information, refer to the consolidated financial statements and footnotes included in the Company's Form 8-K/A.

**Note 2 - Reverse Merger**

China North East Petroleum Holdings Limited (the "North East Petroleum") is a US listed company which was incorporated in Nevada on August 20, 1999 under the name of Draco Holding Corporation (the "Draco"). Draco was authorized to issue 20,000,000 shares of common stock of \$0.001 par value. On June 28, 2004, the Articles of Incorporation were amended to change the name of the Company to China North East Petroleum Holdings Limited and its authorized shares of common stock was increased from 20,000,000 to 50,000,000.

Hong Xiang Petroleum Group Limited ("Hong Xiang Petroleum Group") was incorporated in the British Virgin Islands (["BVI"]) on August 28, 2003.

On December 5, 2003, Song Yuan City Hong Xiang Petroleum Technical Services Co., Ltd. (["Hong Xiang Technical"]) was incorporated in the People's Republic of China (["PRC"]) as a limited liability company with a registered capital of \$484,000. Hong Xiang Technical provides technical advisory services to oil and gas exploration companies in the PRC.

During 2004, Hong Xiang Petroleum Group acquired a 100% ownership of Hong Xiang Technical.

During 2004, Hong Xiang Technical acquired a 100% interest in Song Yuan City Yu Qiao Qianan Hong Xiang Oil and Gas Development Co., Ltd. (["Hong Xiang Oil Development"]), a limited liability company incorporated on April 1, 2003 in the PRC with a registered capital of \$604,800.

Hong Xiang Oil Development is engaged in the exploration and production of crude oil in Jilin Oil Region, the PRC. Subsequent to the Cooperative Exploration Contract entered into by the non-operating interest owner and Jilin Office, PetroChina Group (["Sub-Owner"]) in December 2002, Hong Xiang Oil Development entered into another Cooperative Exploration Contract (the ["Contract"]) with the non-operating interest owner in respect of the development rights to the proven reserves in the Qian'an Oil Field Zone 112 ("Qian'an 112") in Jilin Oil Region for 20 years (the ["Contract Period"]).

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**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED  
AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004 (UNAUDITED AND RESTATED)**

**Note 2 - Reverse Merger ["Contd.].**

In accordance with the Contract, Hong Xiang Oil Development is responsible to provide working capital to develop the oil reserves in Qian'an 112. Production from Qian'an 112 is shared in the following manner:-

Contract period	<u>For the Sub-Owner</u>	<u>For the Company</u>
First 10 years	20%	80%
Remaining 10 years	40%	60%

The acquisition of Hong Xiang Oil Development by Hong Xiang Technical has been accounted for as a reorganization of entities under common control as the companies were beneficially owned by principally identical shareholders and share common management. The financial statements have been prepared as if the reorganization had occurred retroactively.

On March 29, 2004, Draco executed a Plan of Exchange (["the Agreement"]) with all the shareholders of Hong Xiang Petroleum Group to exchange 18,700,000 shares of common stock of Draco for 100% of the outstanding shares of Hong Xiang Petroleum Group.

The Agreement was consummated on April 30, 2004. As a result of the Agreement, the exchange of shares with Hong Xiang Petroleum Group have been accounted for as a reverse acquisition under the purchase method of accounting since the shareholders of Hong Xiang Petroleum Group obtained control of the consolidated entity (["North East Petroleum"]). Accordingly, the merger of North East Petroleum and Hong Xiang Petroleum Group has been recorded as a recapitalization by Hong Xiang Petroleum Group, with Hong Xiang Petroleum Group being treated as the continuing entity. The financial statements have been prepared as if the reorganization had occurred retroactively. North East Petroleum, Hong Xiang Petroleum Group, Hong Xiang Technical and Hong Xiang Oil Development are hereafter referred to as (["the Company"]).

Accordingly, the financial statements include the following:

- a) The balance sheet consists of the net assets of the acquirer at historical cost and the net assets of the acquiree at historical cost; and
- b) The statements of operations include the operations of the acquirer for the years presented and the operations of the acquiree from the date of the merger.

The financial statements of the acquiree are not significant. Therefore, no pro forma financial statements are submitted.

In addition to the Exchange Agreement, on April 30, 2004, Draco executed a Distribution Agreement with its wholly-owned subsidiary, Jump[n Jax, Inc., a Utah corporation ([Jump[n Jax]) pursuant to which the Company agreed to distribute all of the outstanding shares of Jump[n Jax as a dividend to the shareholders of record of Draco as of March 8, 2004. Under the Distribution Agreement, the effective date of the dividend distribution was also April 30, 2004.

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**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED  
AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004 (UNAUDITED AND RESTATED)**

**Note 3 - Principles Of Consolidation**

The accompanying unaudited condensed consolidated financial statements for 2004 include the financial statements of North East Petroleum and its wholly owned subsidiaries, Hong Xiang Petroleum Group, Hong Xiang Technical and Hong Xiang Oil Development.

The accompanying unaudited condensed consolidated financial statements for 2003 include the financial statements of North East Petroleum and its wholly-owned subsidiary Hong Xiang Oil Development as Hong Xiang Petroleum Group and Hong Xiang Technical have not yet existed during the third quarter of 2003.

All significant inter-company accounts and transactions have been eliminated in consolidation.

**Note 4 - Use Of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 5 - Oil And Gas Properties**

The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with the acquisition of development rights and the development of oil reserves including directly related overhead costs, are capitalized.

Depreciation, depletion and amortization of capitalized costs, excluding properties with unproven oil reserves, are based on the unit-of-production methods based on proven reserves. Investments in properties with unproven oil reserves and major development projects are not amortized until proven reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.



In addition, the capitalized costs are subject to a "ceiling test", which basically limits such costs to the aggregate of the "estimated present value", discounted at a 10-percent interest rate of future net revenues from proven reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of properties with unproven oil reserves.

Sales of a portion of the development rights and properties with proven and unproven oil reserves are accounted for as adjustments to capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proven reserves of oil and gas, in which case the gain or loss is recognized as income.

Abandonment of oil and gas properties other than the development rights are accounted for as adjustments to capitalized costs with no loss recognized.

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**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED  
AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004 (UNAUDITED AND RESTATED)**

**Note 6 - Earnings Per Share**

Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common stocks outstanding during the period. Diluted income per share is computed similar to basic income per share except that the denominator is increased to include the number of additional common stocks that would have been outstanding if the potential common stocks had been issued and if the additional common stocks were diluted. There are no potentially dilutive securities for the six months ended June 30, 2004 and for the period from April 1, 2003 (Inception) to June 30, 2003.

**Note 7 - Environmental Costs**

The PRC has adopted extensive environmental laws and regulations that affect the operations of the oil and gas industry. The outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present, and could be material. Under existing legislation, however, the management believes that there are no probable liabilities that will have a material adverse effect on the financial position of the Company.

**Note 8 - Shareholders' Equity**

**(A) Stock issuances**

On March 29, 2004, the Company executed a Plan of Exchange pursuant to which the Company agreed to issue 18,700,000 new shares of common stock to the shareholders of Hong Xiang Petroleum Group in exchange for 100% of registered capital of Hong Xiang Petroleum Group. The Plan of Exchange was consummated on April 30, 2004.

During 2004, North East Petroleum issued 1,199,080 shares of common stock for the recapitalization with Hong Xiang Petroleum Group (see Note 2).

**(B) Appropriated retained earnings**

The Company's PRC subsidiaries are required to make appropriations to reserve funds, comprising the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the People's Republic of China (the

□PRC GAAP□). Appropriations to the statutory surplus reserve should be at least 10% of the after tax net income determined in accordance with the PRC GAAP until the reserve is equal to 50% of the entities□ registered capital. Appropriations to the statutory public welfare fund are at 5% to 10% of the after tax net income determined in accordance with the PRC GAAP. The statutory public welfare fund is established for the purpose of providing employee facilities and other collective benefits to the employees and is non-distributable other than in liquidation. Appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors.

During 2004 and 2003, the Company has not appropriated to the reserve funds based on its net income under PRC GAAP.

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**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED  
AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004 (UNAUDITED AND RESTATED)**

**Note 9 - Related Party Transactions**

Two directors and stockholders made interest free advances totaling \$2,405,314 to the Company as of June 30, 2004 as unsecured loans. The advances are repayable upon demand. Total interest expense imputed at the rate of 6% per annum included in additional paid in capital amounted to \$24,126 for the six months ended June 30, 2004.

**Note 10 - Concentrations And Risks**

During 2004 and 2003, 100% of the Company's assets were located in China and 100% of the Company's revenues were derived from companies located in China.

**Note 11 - Restatement Of Financial Statements**

In May 2005, the Company's Board of Directors determined that the Company's financial statements for the quarters ended June 30, 2004 and September 30, 2004 filed with the Securities and Exchange Commission on August 19, 2004 and December 2, 2004, respectively, contained certain material inaccuracies and should be restated. The Company's Board of Directors determined that certain items on its balance sheet, including prepaid expenses, were materially overstated and that certain liabilities, including accounts payable were materially understated, and that other items on the balance sheets were incorrect. In addition, certain items on the Company's Statement of Operations and Statements of Cash Flows for these periods were also incorrect. As a result, the Company incorrectly reported a net loss of \$7,648 for the three months ended June 30, 2004 and net income of \$243,750 for the six-months ended June 30, 2004. The Company's management undertook an investigation to determine the source of the inaccuracies. However, due to the fact that the Company's prior Chief Financial Officer responsible for these financial statements was no longer with the Company and the worksheets previously prepared by the former CFO were no longer available to the Company, the reason for these inaccuracies could not be determined. Management reconstructed the financial statements for the quarters ended June 30 and September 30, 2004 and the subsequent Quarterly Reports on Form 10-QSB for the periods ending June 30, 2005 and September 30, 2005, filed with the SEC on August 15, 2005 and November 23, 2005, respectively, reflected the corrected financial statements for these periods. In addition, the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 was not affected by these prior inaccuracies.

As a result of the foregoing, the Company has restated its financial statements for the three- and six months ended June 30, 2004 and for the three- and nine-months ended September 30, 2004.

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**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED  
AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004 (UNAUDITED AND RESTATED)**

**Note 11 - Restatement Of Financial Statements □ Contd.**

The changes to the financial statements as restated are as follows:

Condensed Consolidated Balance Sheet  
At June 30, 2004 (Unaudited and Restated)

	June 30, 2004		December 31, 2003	
	Restated	Previously Reported	Restated	Previously Reported
Current assets	\$ 282,112	\$ 1,915,570	\$ 147,432	\$ 147,432
Oil and gas properties and fixed assets, net	4,958,535	4,139,413	4,988,973	4,988,973
Deferred expenditure	-	493,821	-	-
Total assets	5,240,647	6,548,804	5,136,405	5,136,405
Liabilities	4,775,428	4,902,456	4,230,065	4,230,065
Stockholders' equity				
Common stock	19,899	-	19,899	-
Capital	-	-	-	604,800
Additional paid-in capital	104,154	1,109,748	584,901	-
Retained earnings	341,166	551,667	301,540	301,540
	465,219	1,661,415	906,340	906,340
Total liabilities and stockholders' equity	\$ 5,240,647	\$ 6,563,871	\$ 5,136,405	\$ 5,136,405

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**CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED  
AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2004 (UNAUDITED AND RESTATED)**

**Note 11 - Restatement Of Financial Statements □ Contd.**

Condensed Statements of Operations

For the three months and six months ended June 30, 2004 (Consolidated)  
and period from April 1, 2003 (Inception) to June 30, 2003 (Unaudited and Restated)

	Three months ended June 30, 2004		Six months ended June 30, 2004	
	Restated	Previously Reported	Restated	Previously Reported
Revenue	\$ 352,377	\$ 354,514	\$ 799,985	\$ 929,040
Cost of sales	115,869	97,090	305,352	161,817
Gross profit	236,508	257,424	494,633	767,223
Operating expenses	273,117	265,072	300,147	440,930
Income (loss) from operations	(36,609)	(7,648)	194,486	326,293

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Other income (expenses)	(24,092)	-	(25,567)	-
Income before taxes	(60,701)	(7,648)	168,919	326,293
Income tax expenses	53,031	-	129,293	82,543
Net income (loss)	\$ (113,732)	\$ (7,648)	\$ 39,626	\$ 243,750
Net loss per share-basic and diluted	\$ (0.01)	\$ (0.00)	\$ 0.00	\$ 0.01
Weighted average number of shares outstanding during the year-basic and diluted	19,499,387	20,138,568	19,099,693	20,594,293

	Three months ended June 30, 2003		Period from April 1, 2003 (Inception) to June 30, 2003	
	Restated	Previously Reported	Restated	Previously Reported
Revenue	\$ 73,650	\$ 73,808	\$ 73,650	\$ 73,808
Cost of sales	13,299	11,832	13,299	11,832
Gross profit	60,351	61,976	60,351	61,976
Operating expenses	34,947	34,881	34,947	34,881
Income from operations	25,404	27,095	25,404	27,095
Other income (expenses)	19	-	19	-
Income before taxes	25,423	27,095	25,423	27,095
Income tax expenses	8,382	-	8,382	-
Net income (loss)	\$ 17,041	\$ 27,095	\$ 17,041	\$ 27,095
Net loss per share-basic and diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Weighted average number of shares outstanding during the year-basic and diluted	18,700,000	19,908,822	18,700,000	19,908,822

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

The following discussion contains certain statements that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that refer to expectations, projections or other characterization of future events or circumstances, and especially those which include variations of the words "believes," "intends," "estimates," "anticipates," "expects," "plans," or similar words or variations thereof, are likely to be forward-looking statements, and as such, are likely to concern matters involving risk, uncertainty, unpredictability and other factors that could materially and adversely affect the outcome or results indicated by or inferred from the statements themselves. Therefore, the reader is advised that the following discussion should be considered in light of the discussion of risks and other factors contained in this Form 10QSB and in the Company's other filings with the Securities and Exchange Commission, and that no statements contained in the following discussion or in this Form 10QSB should be construed as a guarantee or assurance of future performance or future results.

**RESULTS OF OPERATIONS**

For the three months and six months ended June 30, 2004, the Company had gross revenues of \$352,377 and \$799,985, respectively. The Company had a net loss of \$113,732 for the three months ended June 30, 2004, and net income of \$39,626 for the six months ended June 30, 2004. For the three months ended June 30, 2003, the Company had gross revenues of \$73,650 and net income of \$17,041. However, no meaningful comparison can be made between the results of operations for the periods ended June 30, 2003 and June 30, 2004, because the

Company did not commence its oil and gas operations until April 1, 2003, and as of June 30, 2003, had only been operational for two months.

Company management expects gross revenue and net income to continue to increase on a quarter-by-quarter basis throughout the remainder of 2004 as a result of placing additional wells into production.

### **LIQUIDITY AND CAPITAL RESOURCES**

During the six months ended June 30, 2004, the Company had net income from operations of \$39,626. However, during this period, cash used in operations was \$583,232. As a result, as of June 30, 2004, the Company had cash on hand of approximately \$48,000.

Management plans to rely on net cash from operations to maintain its current level of operations and to fund a gradual increase in the level of operations throughout the remainder of 2004. Although management currently anticipates that substantially all cash generated from operations will be used to fund current operations and for purposes of drilling new wells and seeking to place additional wells into service, management believes the Company has adequate cash resources on hand for those purposes. However, management also hopes raise additional capital which will enable the Company to expand operations more rapidly by drilling more new wells on its current property as well as by seeking to acquire interests in additional properties and drill new wells on those properties.

Management is currently considering the options which may be available for the purpose of raising additional working capital. These may include debt financing as well as the potential for either private or public offering and sale of Company securities. However, there is no assurance that the Company will be able to raise additional working capital for such purposes.

### **OUTLOOK**

During the remainder of 2004, the Company plans to focus its efforts on drilling and completion of additional wells on its property in the Qian 112 zone in the Jinlin Oil region, as well as on raising the capital necessary to acquire interests in additional properties. Management believes that the Company's gross revenues will continue to increase on a quarter-by-quarter basis throughout the remainder of 2004 as the number of producing wells increases. However, Management also expects the Company's expenses to increase as a result of using substantially all of the cash flow generated from operations to drill additional wells.

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### **Item 3. Controls And Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. It should be noted that design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

In addition, there has been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) The following exhibits are filed herewith:

31.1 Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) On May 14, 2004, the registrant filed one report on Form 8-K with the Securities and Exchange Commission to report a change in control.

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**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA NORTH EAST PETROLEUM HOLDINGS LTD.  
(Registrant)

Date: November 22, 2005

By:

/s/ Wang, Hong Jun  
President and Acting Principal Accounting  
Officer

