AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON

**October 13, 2004**

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-QSB

(Mark One)

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

For the quarterly period ended: **August 31, 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: **333-91191**

# INTERMOUNTAIN REFINING CO., INC.

(Name of small business issuer in its charter)

| | |
|---|---|
| **NEW MEXICO** | **74-2329327** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

**1921 Bloomfield Boulevard**
**Farmington, New Mexico 87401**
**Telephone: (505) 326-2668**
(Address, including zip code, and telephone number, including area code, of issuer's principal executive offices)

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

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

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes_____ No _____

(APPLICABLE ONLY TO CORPORATE ISSUERS)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **1,155,609 shares of common stock, no par value, were outstanding on September 30, 2004.**

Transitional Small Business Disclosure Format (Check One): Yes[ ] No [X]

# Table Of Contents



# Financial Statements of Intermountain

The financial statements of Intermountain as of August 31, 2004 and for the three and six month periods ended August 31, 2003 and August 31, 2004 are included beginning on page 10 of this report.

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

The following discussion of our financial condition as of August 31, 2004 and results of operations for the three and six month periods ended August 31, 2003 and August 31, 2004, should be read in conjunction with our financial statements and notes related thereto included elsewhere in this report.

Certain amounts (and corresponding discussion and comparisons) related to results of operations for the three and six month periods ended August 31, 2003 and the statement of cash flows for the six month period ended August 31, 2003 have been restated from amounts previously reported to reflect the change in accounting for asset retirement obligations. The change in accounting principle, which was effective as of March 1, 2003, was implemented during the fourth quarter of the fiscal year ended February 29, 2004.

Some of the statements contained in this report relate to future expectations, contain projections of results of operations or financial condition or include other forward-looking information. When used in this report, the words "estimate", "project", "anticipate", "intend", "believe", "hope", "may" and similar expressions, as well as "will", "shall" and other indications of future tense, are intended to identify forward-looking statements. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. You are cautioned not to place undue reliance on the forward-looking statements.

### *Intermountain's Business Activities*

Intermountain was incorporated under the laws of the state of New Mexico in January 1984 and conducts its business in the following areas:

- Production of oil and natural gas
- Leasing of asphalt paving products manufacturing and storage facilities on a fee basis
- Other business activities including providing management and consulting services to others and leasing unused space in Intermountain's office building.

Effective as of August 1, 2004, Intermountain acquired an interest in several natural gas producing properties located in San Juan County New Mexico for a cash purchase price of $411,429. The purchase consisted of an estimated 12.48% net working interest (9.98% net revenue interest) in 15 natural gas wells on 5,420 gross lease acres with estimated reserves of 380,000 Mcf, net to Intermountain's interest. The properties are operated by an unrelated third party. In addition to the cash purchase price of the properties, Intermountain capitalized $6,600 representing the present value of estimated future plugging and abandonment costs associated with the properties. Initial production from the properties, net to Intermountain interest, is estimated to be approximately 100 Mcf per day. Intermountain will begin reporting results of operations for these properties in September 2004.

## *Liquidity and Capital Resources:*

Management believes that cash flow from ongoing operations will be adequate to meet cash demands for the coming year.

The following table presents selected financial data regarding cash and working capital:

| | February 28, 2004 | % Change | August 31, 2004 |
|---|---|---|---|
| Cash and cash equivalents | $ 895,373 | (29)% | $ 628,403 |
| Working capital | $ 926,435 | (27)% | $ 672,471 |

During the six months ended August 31, 2004, Intermountain realized a $162,000 increase in cash from operating activities offset by a $429,000 decrease in cash from non-operating activities. There were no significant or unusual operating cash items during the period. The $429,000 decrease in cash from non-operating sources consisted mainly of the $411,000 purchase of natural gas producing properties in New Mexico and the use of $16,000 for the settlement of asset retirement obligations.

During the six months ended August 31, 2003, Intermountain realized a $109,000 increase in cash from operating activities and a $52,000 decrease in cash from non-operating sources. There were no significant or unusual operating cash items during the period. The $52,000 decrease in cash from non-operating sources consisted mainly of the purchase of the working interest in the Nebraska oil producing properties for approximately $50,000.

## *Cash requirements as of August 31, 2004:*

Estimated cash requirements for the next twelve months include:

- $25,000 per month in normal general and administrative costs including costs to operate our Farmington office building; and,
- $2,000 estimated monthly costs associated with the ownership and maintenance of Intermountain's refinery and asphalt manufacturing and storage facility.

In its efforts to develop additional sources of revenues, Intermountain may incur some project development costs. We are unable to predict the level of costs that may be incurred for such additional projects during the next year.

Expected sources of cash during the next twelve months consist of cash flows from operating activities estimated as follows:

- $42,000 per month net cash flow from estimated oil and natural gas operations based on results of operations during the six months ended August 31, 2004 (as adjusted for projections of changes in production and prices over the next twelve months) and estimates of operating cash flows from the newly acquired New Mexico gas properties;
- $2,000 per month from Farmington office space rental;
- $3,000 per month from management fees charged to Red Hills Manufacturing;
- $900 per month interest and dividends earned on cash balances and other investments;
- $3,200 per month from the rental of our asphalt storage and manufacturing facility to Paramount Petroleum Corporation, plus an estimated average of $8,300 per month in throughput fees based on estimated annual asphalt product shipments of 10,000 tons during the 2004 paving season.

Estimates of future sources and uses of cash presented herein are based on our assumptions and expectations that our operations will continue at current levels without material interruption and that collection of accounts will occur under agreed terms. Actual results may be materially different.

The major components of the electric generation facility are presently available for sale but there is no assurance that the equipment will be sold within a reasonable period of time.

### *Results of Operations:*

The following table summarizes the results of Intermountain's operations for each of the periods indicated. All percentage amounts were calculated using the underlying data.

| | Three months ended | | |
|---|---|---|---|
| | August 31, 2003 | % Change | August 31, 2004 |
| Revenues | $ 226,173 | (2)% | $ 220,662 |
| Costs and Expenses | 133,060 | (5)% | 126,935 |
| Net income (loss) before taxes | 93,113 | 1% | 93,727 |
| Income taxes | - | 100+% | 62 |
| | $ 93,113 | 1% | $ 93,665 |

| | Six months ended | | |
|---|---|---|---|
| | August 31, 2003 | % Change | August 31, 2004 |
| Revenues | $ 429,642 | (4)% | $ 412,295 |
| Costs and Expenses | 258,495 | 2% | 264,547 |
| Net income (loss) before taxes | 171,147 | (14)% | 147,748 |
| Income taxes | - | 100+% | 62 |
| Net income before cumulative effect of change in accounting principle | 171,147 | (14)% | 147,686 |
| Cumulative effect of change in accounting for asset retirement obligations | (18,593) | (100+)% | - |
| Net income | $ 152,554 | (3)% | $ 147,686 |

### Revenues:

The decrease in revenues for the three months ended August 31, 2004 compared to the three months ended August 31, 2003 consisted of:

- $8,000 decrease in oil and gas revenues
- $3,000 increase in asphalt equipment rental and fees

The increase in revenues for the three months ended August 31, 2003 compared to the three months ended August 31, 2002 consisted of:

- $72,000 increase in oil and gas revenues
- $7,000 increase in asphalt equipment rental and fees

The decrease in revenues for the six months ended August 31, 2004 compared to the six months ended August 31, 2003 consisted of:

- $28,000 decrease in oil and natural gas revenues
- $11,000 increase in asphalt equipment rental and fees

The increase in revenues for the six months ended August 31, 2003 compared to the six months ended August 31, 2002 consisted of:

- $152,000 increase in oil and gas revenues
- $7,000 increase in asphalt equipment rental fees
- $2,000 increase in real estate rental revenues

Changes in individual components of revenues are discussed below:

#### *Natural gas revenues:*

The following table contains oil and natural gas production volumes, net to Intermountain's interest, and average sales prices received for the periods indicated:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | August 31, 2003 | August 31, 2004 | August 31, 2003 | August 31, 2004 |
| Natural gas produced, net (Mcf) | 48,752 | 43,742 | 95,258 | 93,095 |
| Average selling price ($/Mcf) | $2.83 | $3.36 | $3.21 | $3.12 |
| Crude oil produced, net (Bbls) | 143 | 250 | 270 | 513 |
| Average selling price ($/Bbl) | $27.94 | $35.13 | $26.83 | $33.89 |

The decrease in oil and natural gas revenues for the six months ended August 31, 2004 as compared to the six months ended August 31, 2003 consisted of a $38,000 decrease in natural gas sales offset by a $10,000 increase in oil sales. The decrease in natural gas revenues was mainly attributed to the prior year one time recognition of $22,000 from the resolution of a previously disputed payment. Otherwise, natural gas production declined by 2,200 Mcf (2%) and average sale prices declined by $0.09 per Mcf (3%) during the six months ended August 31, 2004 as compared to the six months ended August 31, 2003. It is estimated that natural gas production over the remainder of the year will increase by the addition of production from the New Mexico gas producing properties in September 2004, offset slightly by normal declines observed from the Kansas gas producing properties. Natural gas sales prices have remained comparatively strong throughout the past two years. Crude oil production increased by 243 Bbls (90%) and average sales prices increased by $7.06 per Bbl (26%) during the six months ended August 31, 2004 as compared to the six months ended August 31, 2003. The increase in oil production was attributed to the timing of a March 2004 shipment of oil that had been produced in January and February 2004, and a slight increase in daily production from the Nebraska properties. Due to concerns over world oil supply and demand imbalances, crude oil sales prices have risen substantially over the past several months. Due to the complex economic factors affecting energy prices, we are unable to predict the direction or magnitude of future natural gas and crude oil price changes.

The increase in oil and natural gas revenues for the six months ended August 31, 2003 as compared to the six months ended August 31, 2002 consisted of a $145,000 increase in natural gas revenues and the addition of $7,000 in oil revenues associated with the oil producing properties acquired on March 1, 2003. The $145,000 increase in natural gas revenues included the one time recognition of $22,000 from the resolution of a previously disputed payment. The remaining increase was attributed to a $1.40 per Mcf (77%) increase in the average natural gas price received along with a 6,300 Mcf (6%) decrease in natural gas produced.

The decrease in oil and natural gas revenues for the three month period ended August 31, 2004 as compared to the three month period ended August 31, 2003 consisted of a $13,000 decrease in natural gas revenues offset by a $5,000 increase in crude oil sales. The decrease in natural gas revenues consisted mainly of the one time recognition of $22,000 in the prior year from the resolution of a previously disputed payment. Otherwise, natural gas production decreased by 5,000 Mcf (10%) and the average selling price increased by $0.38 per Mcf (19%) for the three month period ended August 31, 2004 as compared to the three month period ended August 31, 2003. Crude oil production increased by 107 Bbls (74%) and the average selling price increased by $7.19 per Bbl (26%) for the three month period ended August 31, 2004 as compared to the three month period ended August 31, 2003.

The increase in oil and natural gas revenues for the three month period ended August 31, 2003 as compared to the three month period ended August 31, 2002 consisted of a $68,000 increase in natural gas revenues and the addition of $4,000 in oil revenues associated with the oil producing properties acquired on March 1, 2003. The $68,000 increase in natural gas revenues included the one time recognition of $22,000 from the resolution of a previously disputed payment. The remaining increase was attributed to a $1.02 per Mcf (56%) increase in the average natural gas price received along with a 2,400 Mcf (5%), decrease in natural gas produced.

***Real estate rental:***

Due to a slight reduction in occupancy, real estate rental income declined by $100 for the six months ended August 31, 2004 compared to the six months ended August 31, 2003 and declined by $400 for the three months ended August 31, 2004 compared to the three months ended August 31, 2003. It is anticipated that real estate rental income will remain relatively unchanged over the remainder of the current year.

Real estate rental income increased by $2,000, approximately $330 per month, during the six months ended August 31, 2003 compared to the six month period ended August 31, 2002. Real estate rental income increased only slightly during the three month period ended August 31, 2003 compared to the three month period ended August 31, 2002.

***Asphalt storage and manufacturing:***

The increase in asphalt equipment rental and fees for the three and six month periods ended August 31, 2004 compared to the three and six month periods ended August 31, 2003 was the result of a slight increase in quantities shipped from the facility. It is anticipated that fees received for asphalt product shipments from the facility during the remainder of the current paving season will be consistent with fees received from end of paving season shipments of the prior year.

The increase in asphalt equipment rental and fees for the three and six month periods ended August 31, 2003 compared to the three and six month periods ended August 31, 2002 was the result of a slight increase in quantities shipped from the facility.

***Consulting fee revenues:***

There was no change in consulting fee revenues for the three and six month periods ended August 31, 2004 compared to the three and six month periods ended August 31, 2003. It is anticipated that consulting fee revenues will remain constant for the remainder of the current year.

There was no change in consulting fee revenues for the three and six month periods ended August 31, 2003 compared to the three and six month periods ended August 31, 2002.

## Costs and Expenses:

The following table presents a summary of Intermountain's costs and expenses for the periods indicated:

| | Three Months Ended | | |
|---|---|---|---|
| | August 31, 2003 | % Change | August 31, 2004 |
| Cost of sales | $ 51,224 | (5)% | $ 48,901 |
| General and administrative costs | 67,807 | 0% | 67,835 |
| Depletion, depreciation and amortization | 15,693 | (22)% | 12,238 |
| Accretion of discount on asset retirement obligations | 711 | 9% | 773 |
| Interest and investment (income) loss, net | (2,375) | (18)% | (2,812) |
| Total costs and expenses | $ 133,060 | (5)% | $ 126,935 |

| | Six Months Ended | | |
|---|---|---|---|
| | August 31, 2003 | % Change | August 31, 2004 |
| Cost of sales | $ 89,313 | 6% | $ 94,260 |
| General and administrative costs | 142,045 | 4% | 147,796 |
| Depletion, depreciation and amortization | 30,967 | (19)% | 25,164 |
| Accretion of discount on asset retirement obligations | 1,423 | 9% | 1,546 |
| Interest and investment income, net | (5,253) | 20% | (4,219) |
| Total costs and expenses | $ 258,495 | 2% | $ 264,547 |

Costs and expenses increased overall by $6,000 during the six months ended August 31, 2004 compared to the six months ended August 31, 2003. The increase in consisted of:

- $5,000 increase in costs of sales
- $6,000 increase in general and administrative costs
- $1,000 decrease in interest and investment income
- $6,000 reduction in depreciation and depletion expense

Costs and expenses decreased overall by $6,000 for the three months ended August 31, 2004 compared to the three months ended August 31, 2003. The decrease in costs and expenses consisted mainly of:

- $2,000 decrease in costs of sales
- $4,000 decrease in depreciation and depletion

Costs and expenses decreased overall by $32,000 during the six month period ended August 31, 2003 compared to the six month period ended August 31, 2002. The decrease in costs and expenses consisted of:

- $1,000 decrease in costs of sales
- $11,000 decrease in general and administrative costs

- $21,000 increase in net interest and investment income
- $1,000 from the addition of accretion of discount on asset retirement obligations

Costs and expenses decreased overall by $17,000 during the three month period ended August 31, 2003 compared to the three month period ended August 31, 2002. The decrease in costs and expenses consisted of:

- $6,000 decrease in general and administrative costs
- $21,000 increase in net interest and investment income
- $9,000 increase in cost of sales
- $1,000 from the addition of accretion of discount on asset retirement obligations

Changes in individual components of costs and expenses are discussed below.

***Cost of sales:***

Cost of sales includes costs incurred in the production of oil and natural gas and certain costs of maintaining the asphalt and refinery facility.

The increase in cost of sales for the six months ended August 31, 2004 compared to the six months ended August 31, 2003 consisted of an overall $1,000 increase in oil and natural gas production costs and a $4,000 increase in refinery and asphalt facility maintenance costs. The increase in oil and natural gas production costs consisted mainly of an increase in costs associated with the Kansas natural gas operations including a $1,000 increase in utility costs, and a $4,500 increase in gas reserves accounting costs, offset by $2,000 decrease in salt water disposal costs and a $3,000 decrease in equipment repair costs. There was no significant change in Nebraska crude oil production costs. The increase in refinery and asphalt facility maintenance costs was attributed to a $5,000 increase in environmental permitting and compliance costs offset by a $1,000 decrease in facility insurance costs.

The decrease in cost of sales for the three months ended August 31, 2004 compared to the three months ended August 31, 2004 consisted of an $8,000 decrease in oil and natural gas production costs offset by a $5,000 increase in refinery and asphalt facility maintenance costs. The decrease in oil and natural gas production costs consisted of a $4,000 decrease in natural gas production costs and a $3,000 decrease in crude oil production costs. The decrease in natural gas production costs consisted of a $1,000 increase in utility costs offset by a $1,000 decrease in salt water disposal costs and a $4,000 decrease in equipment repair costs. The decrease in crude oil production costs consisted of a $4,000 reduction in equipment repair costs, offset by an overall $1,000 increase in all other cost categories.

Cost of sales was relatively unchanged during the six month period ended August 31, 2003 as compared to the six month period ended August 31, 2002 but consisted of a $3,000 decrease in oil and natural gas production costs offset by a $3,000 increase in refinery and asphalt facility maintenance costs. The decrease in oil and natural gas production costs consisted of $12,000 decrease in natural gas production costs offset by the addition of $9,000 in oil production costs associated with the oil producing property acquired on March 1, 2003. Intermountain incurred no oil production costs during the six month period ended August 31, 2002. The decrease in natural gas production costs was mainly attributed to an $11,000 decrease in well equipment repairs. There were no significant changes in other natural gas production cost categories. The increase in refinery and asphalt facility maintenance costs was mainly attributed to a $4,000 increase in state environmental permitting fees offset by a $1,000 decrease in insurance costs.

The increase in cost of sales for the three month period ended August 31, 2003 as compared to the three month period ended August 31, 2002 consisted of a $7,000 increase in oil and natural gas production costs and a $2,000 increase in refinery and asphalt facility maintenance costs. The increase in oil and natural gas production costs is attributed to the addition of $7,000 from oil production costs associated with the oil producing properties acquired on March 1, 2003. Intermountain had no oil production costs during the three month period ended August 31, 2002. Overall, natural gas production costs were relatively unchanged for the three month period ended August 31, 2003 as compared to the three month period ended August 31, 2002, and there were no significant changes in individual natural gas production cost categories. The increase in refinery and asphalt facility maintenance costs consisted of a $4,000 increase in state environmental permitting fees offset by a $2,000 decrease in insurance costs.

***General and administrative expenses:***

General and administrative expenses include the cost of Intermountain's officers and administrative employees, costs incurred to operate and maintain the Farmington office building, and all items of general overhead required to manage and administer the corporate affairs of Intermountain.

The increase in general and administrative expenses during the six months ended August 31, 2004 as compared to the six months ended August 31, 2003 was primarily the result of a $5,000 increase in legal and accounting costs and a $1,000 overall increase in all other costs categories.

General and administrative costs were relatively unchanged overall for the three months ended August 31, 2004 as compared to the three months ended August 31, 2003 and there were no significant changes within individual cost categories.

The decrease in general and administrative expenses during the six month period ended August 31, 2003 as compared to the six month period ended August 31, 2002 was primarily due to a $12,000 decrease in officer life insurance costs offset by a net increase of $1,000 in all other cost categories. The reduction in officer life insurance costs was the result of the surrender of an officer life insurance policy during the prior year. Changes in other general and administrative cost categories included a $1,000 increase in group insurance costs, a $1,000 increase in legal and accounting services, a $1,000 increase in utility costs, and a $1,000 increase in corporate filing fees, offset by a $2,000 decrease in office supplies and a $1,000 decrease in building and office equipment repairs and maintenance.

The decrease in general and administrative expenses during the three month period ended August 31, 2003 as compared to the three month period ended August 31, 2002 was primarily due to a $10,000 decrease in officer life insurance costs offset by a net $4,000 increase in all other cost categories. The decrease in officer life insurance expense was the result of the surrender of an officer life insurance policy during the prior year. Changes in other general and administrative cost categories included a $1,000 increase in group insurance costs, a $1,000 increase in utility costs, a $1,000 increase in building and office equipment repairs, a $3,000 increase in legal and accounting services, and a $ 1,000 increase in corporate filing fees, offset by a $2,000 decrease in office supplies and a net $1,000 decrease in all other costs categories.

***Depreciation and Depletion:***

The decrease in depreciation and depletion costs during the three and six month periods ended August 31, 2004 as compared to the three and six month periods ended August 31, 2003 was primarily attributed to a decrease in natural gas production along with a reduction in the depletion rate applied to natural gas produced resulting from the February 2004 adjustment to estimated gas reserves. In addition, depreciation expense on leased asphalt manufacturing and storage equipment decreased by approximately $1,000 per quarter.

There was no significant change in depletion and depreciation costs during the three and six month periods ended August 31, 2003 as compared to the three and six month periods ended August 31, 2002. However, there was a slight reduction in depletion expense associated with a decline in natural gas production during the three and six month periods ended August 31, 2003 as compared to the three and six month periods ended August 31, 2002 that was offset by the addition of depletion on oil production associated with the oil producing properties acquired on March 1, 2003.

***Interest and investment income (net):***

Interest and investment income includes earnings on cash balances and certificates of deposit, and net earnings on investments, less interest expense incurred.

The decrease in interest and investment income for the six months ended August 31, 2004 as compared to the six months ended August 31, 2003 consisted of a $400 decrease in interest income earned on cash balances and a $900 loss on the sale of available for sale investments, offset by $300 increase in dividends received on available for sale investments. The increase in interest and investment income for the three months ended August 31, 2004 as compared to the three months ended August 31, 2003 consisted of a $1,400 increase in dividends received on available for sale investments offset by a $1,000 decrease in interest earned on cash balances. The decrease in interest earned on cash balances was attributed to the decrease in cash from the purchase of the New Mexico gas producing properties. During the six months ended August 31, 2004, Intermountain disposed of all of its mutual fund investments and reinvested the sale proceeds in other equities in an effort to improve the overall yield on such investments. Intermountain incurred no interest expense during the three or six month periods ended August 31, 2004 and August 31, 2003.

The increase in interest and investment income for the three and six month periods ended August 31, 2003 primarily consisted of a $21,000 loss recognized on the sale of mutual funds during the three and six month periods ended August 31, 2002. Interest earned on cash balances and from remaining mutual fund investments were substantially unchanged during the three and six month periods ended August 31, 2003 as compared to the six month period ended August 31, 2002. Intermountain incurred no interest expense during the three and six month periods ended August 31, 2003 and August 31, 2002.

## *Changes in Accounting Principles:*

Effective as of March 1, 2003, Intermountain implemented the provisions of Financial Accounting Standards Board Statement No. 143 "Accounting for Asset Retirement Obligations". The Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Statement is applicable to Intermountain's obligation to incur future costs to plug and abandon its oil and gas wells.

The Statement requires that the amount of future plugging costs to be estimated and recorded, at their present value as of the date of acquisition, as a liability with a corresponding increase in the capitalized cost of the oil and gas assets. Subsequently, the additional capitalized costs are amortized to expense using the units of production method, and the discount on the present value of the liability is amortized to accretion expense based on the increase in the present value over the passage of time. Actual costs incurred for plugging and abandonment activities are charged against the liability instead of being charged to results of operations as was the case before implementation of the Statement.

Effective as of March 1, 2003, Intermountain recorded an $18,593 charge to results of operations as recognition of the cumulative effect of the change in accounting for plugging and abandonment costs associated with its Kansas natural gas producing properties.

### *Inflation, Deflation and Changing Prices:*

The results of operations and capital expenditures will continue to be affected by inflation, deflation and changing prices. Prices of oil and natural gas could have a material effect on Intermountain's operations. Management is unable to determine the full impact of inflation, deflation and changing prices on the results of operations or working capital.

## Controls and Procedures

### *Evaluation of Disclosure Controls and Procedures:*

Disclosure controls and procedures are designed and implemented to insure that all material information relating to a company is made known to its chief operating officer, chief financial officer, and such other persons who are responsible for preparing and filing periodic reports with the Securities and Exchange Commission. On September 15, 2004, William N. Hagler and Rick L. Hurt, representing all of the officers and directors of Intermountain, updated their evaluation of Intermountain's disclosure controls and procedures and concluded that such controls were adequate as of that date.

### *Changes in Internal Controls:*

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

## Legal Proceedings

We are not aware of any pending or threatened legal proceedings to which Intermountain is a party. We are not aware of any pending or threatened legal proceedings to which any director, officer, affiliate of Intermountain, or any owner of more than 5% of Intermountain's common stock, is an adverse party to, or has a material interest adverse to, Intermountain.

## Submission of Matters to a Vote of Security Holders

There have been no matters submitted to a vote of security holders during the three months ended August 31, 2004 through the solicitation of proxies or otherwise.

# Financial Statements of Intermountain Refining Co., Inc.

## Index to Financial Statements

**Intermountain Refining Co., Inc.**
**Balance Sheet – Unaudited**
**August 31, 2004**

| | |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash and cash equivalents | $ 628,403 |
| Accounts receivable | 71,885 |
| Inventories | 2,390 |
| Prepaid expenses | 5,653 |
| Total Current Assets | 708,331 |
| | |
| **Property, Plant and Equipment**, net of valuation allowances | |
| Land, buildings and improvements | 384,419 |
| Equipment | 164,930 |
| Crude oil refining equipment | 581,919 |
| Oil and gas properties, (successful efforts method) - Note C | 1,473,390 |
| | 2,604,658 |
| Less accumulated depletion and depreciation | (1,836,991) |
| | 767,667 |
| **Other Assets** | |
| Electric generation equipment available for sale | 270,000 |
| Available-for-sale investments | 80,515 |
| Other assets | 36,608 |
| | 387,123 |
| **Total Assets** | $ 1,863,121 |
| | |
| **Liabilities and Stockholders' Equity** | |
| **Current Liabilities** | |
| Accounts payable | $ 32,897 |
| Taxes other than income taxes | 2,963 |
| Income taxes payable | - |
| Total Current Liabilities | 35,860 |
| | |
| **Deferred Taxes** | 5,144 |
| | |
| **Asset Retirement Obligations** | 28,790 |
| | |
| **Commitments and Contingencies** | - |
| | |
| **Stockholders' Equity** | |
| Common stock, no par value, authorized 10,000,000 shares, issued and outstanding 1,155,609 shares | 1,455,314 |
| Preferred stock, $0.01 par value, authorized 5,000,000 shares, 0 shares issued and outstanding. | - |
| Retained earnings | 328,461 |
| Accumulated other comprehensive gain | 9,552 |
| | 1,793,327 |
| **Total Liabilities and Stockholders' Equity** | $ 1,863,121 |

The accompanying notes are an integral part of these financial statements.

**Intermountain Refining Co., Inc.**
**Statements of Income and Comprehensive Income**

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | August 31, 2003 | August 31, 2004 | August 31, 2003 | August 31, 2004 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| **Revenues** | | | | |
| Oil and gas production revenues | $ 164,122 | $ 155,856 | $ 335,614 | $ 307,793 |
| Asphalt equipment rental and fees | 46,751 | 49,881 | 63,428 | 74,002 |
| Real estate rental income | 6,300 | 5,925 | 12,600 | 12,500 |
| Consulting fees | 9,000 | 9,000 | 18,000 | 18,000 |
| | 226,173 | 220,662 | 429,642 | 412,295 |
| **Costs and Expenses** | | | | |
| Cost of sales | 51,224 | 48,901 | 89,313 | 94,260 |
| General and administrative | 67,807 | 67,835 | 142,045 | 147,796 |
| Depletion, depreciation and amortization - Note B | 15,693 | 12,238 | 30,967 | 25,164 |
| Accretion of discount on asset retirement obligations - Note B | 711 | 773 | 1,423 | 1,546 |
| Interest and investment (income), net | (2,375) | (2,812) | (5,253) | (4,219) |
| | 133,060 | 126,935 | 258,495 | 264,547 |
| **Income From Operations Before Income Taxes** | 93,113 | 93,727 | 171,147 | 147,748 |
| Provision (benefit) for income taxes | | | | |
| Current | - | 62 | - | 62 |
| Deferred | - | - | - | - |
| | - | 62 | - | 62 |
| **Income Before Cumulative Effect of Change in Accounting Principle** | 93,113 | 93,665 | 171,147 | 147,686 |
| Cumulative effect on prior years of change in accounting for asset retirement obligations - Note B | - | - | (18,593) | - |
| **Net Income** | 93,113 | 93,665 | 152,554 | 147,686 |
| **Other Comprehensive Income (Loss)**, net of tax: | | | | |
| Unrealized gains (losses) on available for sale securities: | | | | |
| Unrealized holding gain (loss) on investments available for sale (net of deferred income tax (expense) benefit of $666 and $(278) for the three and six month periods ended August 31, 2003 respectively, and $(1,873) and $(2,370) for the three and six month periods ended August 31, 2004 respectively) | (1,236) | 3,477 | 516 | 4,402 |
| Reclassification adjustment for losses included in net income (net of deferred taxes of $316 for the six month period ended August 31, 2004) | - | - | - | 585 |
| Other comprehensive income (loss) | (1,236) | 3,477 | 516 | 4,987 |
| **Comprehensive Income** | $ 91,877 | $ 97,142 | $ 153,070 | $ 152,673 |
| | ========= | ========= | ========= | ========= |
| **Weighted Average Number of Shares Outstanding** | 1,155,609 | 1,155,609 | 1,155,609 | 1,155,609 |
| **Basic and Fully Diluted Earnings Per Share** | | | | |
| Income before cumulative effect of change of accounting principle | $ 0.08 | $ 0.08 | $ 0.15 | $ 0.13 |
| Cumulative effect of change of accounting for asset retirement obligations | 0.00 | 0.00 | (0.02) | 0.00 |
| | $ 0.08 | $ 0.08 | $ 0.13 | $ 0.13 |
| | ======== | ======== | ======== | ======== |

The accompanying notes are an integral part of these financial statements.

**Intermountain Refining Co., Inc.**
**Statements of Cash Flows**

| | Six months ended August 31, 2003 (Unaudited) | Six months ended August 31, 2004 (Unaudited) |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net income (loss) | $ 152,554 | $ 147,686 |
| Adjustments to reconcile net loss to net cash provided (used) by operating activities: | | |
| Cumulative effect of change in accounting for asset retirement obligations - Note B | 18,593 | - |
| Depreciation, depletion and amortization - Note B | 30,967 | 25,164 |
| Accretion of discount on asset retirement obligations - Note B | 1,423 | 1,546 |
| Loss on sale of available for sale investments | - | 901 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (76,847) | 6,851 |
| Increase in prepaid expenses | (3,801) | (4,766) |
| Decrease in accounts payable and accrued expenses | (13,557) | (14,942) |
| Decrease in income taxes payable | (100) | (149) |
| Net Cash Flow Provided by Operating Activities | 109,232 | 162,291 |
| **Cash Flows From Investing Activities** | | |
| Settlement of asset retirement obligations | - | (15,740) |
| Purchase of oil producing properties | (50,105) | (411,429) |
| Purchases of available for sale mutual funds | (876) | (100,525) |
| Proceeds from the sale of available for sale mutual funds | - | 98,921 |
| (Increase) decrease in cash value of life insurance polices | (633) | (488) |
| Net Cash Flow Provided (Used) by Investing Activities | (51,614) | (429,261) |
| **Increase (Decrease) in Cash and Cash Equivalents** | 57,618 | (266,970) |
| **Cash and Cash Equivalents at Beginning of Year** | 616,052 | 895,373 |
| **Cash and Cash Equivalents at End of Period** | $ 673,670 | $ 628,403 |
| | ======== | ======== |

Intermountain paid interest of $0 during the six month period ended August 31, 2004.
Intermountain paid interest of $0 during the six month period ended August 31, 2003.

Intermountain paid income taxes of $211 during the six month period ended August 31, 2004.
Intermountain paid income taxes of $100 during the six month period ended August 31, 2003.

**Supplemental Schedule of Noncash Investing Activities:**
During the six month period ended August 31, 2004, Intermountain's available for sale investment increased in value by $4,987 net of deferred taxes of $2,686.
During the six month period ended August 31, 2003, Intermountain’s available for sale investments increased in value by $516, net of deferred taxes of $278.
During the six month period ended August 31, 2004, Intermountain capitalized $6,600 in estimated asset retirement obligations in conjunction with the purchase of natural gas producing properties in New Mexico. Note - C
During the six month period ended August 31, 2003, as a result of a change in accounting for asset retirement obligation, Intermountain recognized estimated asset retirement obligations of $33,538 and increased its investment in oil and gas producing properties by the present value (as of the date of acquisition) of estimated future obligations of $14,945, net of accumulated depletion of $4,580. - Note B
The accompanying notes are an integral part of these financial statements.

### *Note A - Interim Financial Statements (Unaudited)*

The accompanying balance sheet as of August 31, 2004 and the statements of operations for the three and six month periods ended August 31, 2003 and August 31, 2004, and the statements of cash flows for the six month periods ended August 31, 2003 and August 31, 2004 have been prepared by Intermountain, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash at August 31, 2004, and for all periods presented, have been made.

It is suggested that these unaudited financial statements be read in conjunction with the audited financial statements for the year ended February 28, 2004. The results of operations for the six months ended August 31, 2004 are not necessarily indicative of the operating results for the full year.

### *Note B – Restatement of Prior Year Amounts:*

Certain amounts in the statement of operations for the three and six month periods ended August 31, 2003 and the statement of cash flows for the six month period ended August 31, 2003 have been restated from the amounts as previously reported in order to reflect the change in accounting for asset retirement obligations. The change in accounting principle, which was effective as of March 1, 2003, was implemented during the fourth quarter of the fiscal year ended February 29, 2004.

### *Note C – Acquisition of Gas Producing Properties in New Mexico:*

Effective as of August 1, 2004, Intermountain acquired an interest in several natural gas producing properties located in San Juan County New Mexico for a cash purchase price of $411,429. The purchase consisted of an estimated 12.48% net working interest (9.98% net revenue interest) in 15 natural gas wells on 5,420 gross lease acres with estimated reserves of 380,000 Mcf, net to Intermountain's interest. The properties are operated by an unrelated third party. In addition to the cash purchase price of the properties, Intermountain capitalized $6,600 representing the present value of estimated future plugging and abandonment costs associated with the properties. Initial production from the properties, net to Intermountain interest, is estimated to be approximately 100 Mcf per day. Due to operator delays in the preparation of reports on production and operating costs, Intermountain will begin reporting results of operations for these properties in September 2004.

# Exhibits and Reports on Form 8-K

### *Reports on Form 8-K:*

There were no reports on Form 8-K filed by Intermountain during the quarter ended August 31, 2004.

### *Exhibits:*

Of the following exhibits, exhibit 99.1 and exhibit 99.2 are filed as part of this report. All of the remaining exhibits are incorporated herein by reference to Intermountain's registration statement filed on Form S-1 dated April, 9, 2001:

| Exhibit | Description |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation |
| 3.2 | Bylaws |
| 10.4 | Oneok / Kinder Morgan / KN Energy Gas Sales Agreement |
| 10.5 | Paramount Petroleum Agreement |
| 99.1 | Certification of Chief Executive Officer under Sec.906 of Sarbanes-Oxley Act of 2002 |
| 99.2 | Certification of Chief Financial Officer under Sec.906 of Sarbanes-Oxley Act of 2002 |

# Signatures

Pursuant to the requirements of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Farmington, State of New Mexico, on October 13, 2004.

**Intermountain Refining Co., Inc.**

By: /s/ William N. Hagler
William N. Hagler, President

Pursuant to the requirements of the Exchange Act, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

/s/ William N. Hagler__________________ Date: October 13, 2004
William N. Hagler, Chairman of the Board of
Directors, and President

/s/ Rick L. Hurt_______________________ Date: October 13, 2004
Rick L. Hurt, Secretary, Treasurer, Director

# Certifications

I, Rick L. Hurt, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Intermountain Refining Co., Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this quarterly report is being prepared;
    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
    c. presented is this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors:
    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 13, 2004

/s/ Rick L. Hurt____________________

Rick L. Hurt, Secretary, Treasurer, Director

I, William N. Hagler, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Intermountain Refining Co., Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this quarterly report is being prepared;
    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
    c. presented is this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors:
    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 13, 2004

/s/ William N. Hagler________________

William N. Hagler, President, Director

# EXHIBIT 99.1

## Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, William N. Hagler, President and Chief Executive Officer of Intermountain Refining Co., Inc. certify that:

1. I have reviewed the quarterly report on Form 10-QSB of Intermountain Refining Co., Inc;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: October 13, 2004

/s/ William N. Hagler

William N. Hagler

President and Chief Executive Officer

# EXHIBIT 99.2

# Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Rick L. Hurt, Treasurer and Chief Financial Officer of Intermountain Refining Co., Inc. certify that

1. I have reviewed the quarterly report on Form 10-QSB of Intermountain Refining Co., Inc;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: October 13, 2004

/s/ Rick L. Hurt

Rick L. Hurt

Treasurer and Chief Financial Officer