

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON

October 10, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: **August 31, 2005**

☐ **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

(State or other jurisdiction of incorporation or organization)

74-2329327

(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 ☒ 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, 2005.**

Transitional Small Business Disclosure Format (Check One): Yes ☐ No ☒

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Financial Statements of Intermountain

The financial statements of Intermountain as of August 31, 2005 and for the three and six month periods ended August 31, 2004 and August 31, 2005 are included beginning on page 9 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, 2005 and results of operations for the three and six month periods ended August 31, 2004 and August 31, 2005, should be read in conjunction with our financial statements and notes related thereto included elsewhere in this report.

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, on a fee basis, of asphalt paving products manufacturing and storage facilities in Fredonia, Arizona

Other business activities including providing management and consulting services to others and leasing unused space in Intermountain's office building.

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, <u>2005</u> | % <u>Change</u> | August 31, <u>2005</u> |
|---------------------------|-----------------------------|--------------------|---------------------------|
| Cash and cash equivalents | \$ 803,175 | 3% | \$ 824,079 |
| Working capital | \$ 815,542 | (8)% | \$ 748,697 |

During the six months ended August 31, 2005, Intermountain realized a \$53,000 increase in cash from operating activities offset by a \$32,000 decrease in cash from non-operating activities. Significant or unusual operating cash items during the period consisted of \$163,000 cash used for the abatement of asbestos containing materials at Intermountain's asphalt products manufacturing and storage facility. The \$32,000 decrease in cash from non-operating sources consisted mainly of \$28,000 cash used to purchase new fuel tanks and cooling system improvements on the electric generation equipment in preparation for an anticipated sale.

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.

Cash requirements as of August 31, 2005:

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

\$20,000 estimated remaining costs to complete asbestos abatement at Intermountain's asphalt products manufacturing and storage facility

\$1,000 estimated monthly costs (excluding asbestos abatement 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:

\$40,000 per month (net of production costs) from estimated oil and natural gas operations based on results of operations during the six months ended August 31, 2005 along with projections of production and prices during the next 12 months

\$2,200 per month from Farmington office space rental and consulting services

\$1,500 per month interest and dividends earned on cash balances and other investments

\$15,700 per month from the asphalt equipment rental and throughput fees based on estimated annual asphalt product shipments of 15,000 tons

\$274,000 from the sale of the electric generation facility which is expected to close in October 2005

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.

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.

| | <u>Three months ended</u> | | |
|--------------------------------|---------------------------|-----------------|---------------------------|
| | August 31, <u>2004</u> | % <u>Change</u> | August 31, <u>2005</u> |
| Revenues | \$ 220,662 | 37% | \$ 301,954 |
| Costs and Expenses | <u>126,935</u> | <u>134%</u> | <u>297,229</u> |
| Net income (loss) before taxes | 93,727 | (95)% | 4,725 |
| Income taxes | <u>62</u> | <u>(100)%</u> | <u>-</u> |
| Net income | <u>\$ 93,665</u> | <u>(95)%</u> | <u>\$ 4,725</u> |

| | August 31, <u>2004</u> | <u>Six months ended</u> <u>% Change</u> | August 31, <u>2005</u> |
|---|---------------------------|--|---------------------------|
| Revenues | \$ 412,295 | 30% | \$ 535,960 |
| Costs and expenses (excluding asbestos abatement costs) | 264,547 | 71% | 452,069 |
| Asbestos abatement costs | <u>-</u> | <u>100+%</u> | <u>175,000</u> |
| Net income (loss) before taxes | 147,748 | (162)% | (91,109) |
| Income taxes | <u>62</u> | <u>(100)%</u> | <u>-</u> |
| Net income (loss) | <u>\$ 147,686</u> | <u>(162)%</u> | <u>\$ (91,109)</u> |

Revenues:

The following table presents a summary of our revenues for the periods indicated. All percentage amounts were calculated using the underlying data.

| | August 31, <u>2004</u> | <u>Three months ended</u> <u>% Change</u> | August 31, <u>2005</u> |
|--|---------------------------|--|---------------------------|
| Oil and gas production | \$ 155,856 | 27% | \$ 198,488 |
| Asphalt equipment rental and throughput fees | 49,881 | 94% | 96,746 |
| Real estate rental | 5,925 | 1% | 5,970 |
| Consulting fees | <u>9,000</u> | <u>(92)%</u> | <u>750</u> |
| Total Revenues | <u>\$ 220,662</u> | <u>37%</u> | <u>\$ 301,954</u> |

| | August 31, <u>2004</u> | <u>Six months ended</u> <u>% Change</u> | August 31, <u>2005</u> |
|--|---------------------------|--|---------------------------|
| Oil and gas production | \$ 307,793 | 27% | \$ 391,776 |
| Asphalt equipment rental and throughput fees | 74,002 | 73% | 127,829 |
| Real estate rental | 12,500 | (3)% | 12,105 |
| Consulting fees | <u>18,000</u> | <u>(76)%</u> | <u>4,250</u> |
| Total Revenues | <u>\$ 412,295</u> | <u>30%</u> | <u>\$ 535,960</u> |

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:

| | <u>For the three months ended</u> | | <u>For the six months ended</u> | |
|---------------------------------|-----------------------------------|---------------------------|---------------------------------|---------------------------|
| | August 31, <u>2004</u> | August 31, <u>2005</u> | August 31, <u>2004</u> | August 31, <u>2005</u> |
| Natural gas produced, net (Mcf) | <u>43,742</u> | <u>47,652</u> | <u>93,095</u> | <u>95,052</u> |
| Average selling price (\$/Mcf) | <u>\$3.36</u> | <u>\$3.91</u> | <u>\$3.12</u> | <u>\$3.92</u> |
| Crude oil produced, net (Bbls) | <u>250</u> | <u>269</u> | <u>513</u> | <u>407</u> |
| Average selling price (\$/Bbl) | <u>\$35.20</u> | <u>\$45.20</u> | <u>\$33.89</u> | <u>\$46.21</u> |

The increase in oil and natural gas revenues for the six months ended August 31, 2005 as compared to the six months ended August 31, 2004 consisted of an \$82,000 increase in natural gas sales and a \$1,000 increase in crude oil revenues. The increase in natural gas revenues consisted of a \$2,000 increase in Kansas revenues plus the addition of \$80,000 from New Mexico gas properties, which were acquired in August 2004. Kansas natural gas revenues consisted of a 12,567 Mcf (14%) decrease in production offset by a \$0.51/Mcf (16%) increase in selling price. New Mexico natural gas revenues consisted of the production of 14,524 Mcf at an average selling price of

\$5.55/Mcf. The increase in crude oil revenues consisted of a 106 Bbl (21%) decrease in production offset by a \$12.29/Bbl (36%) increase in selling price. Due to the complexity of economic factors affecting energy prices, we are unable to predict the direction or magnitude of future price changes. It is expected that Intermountain's production of natural gas will decline slightly over the next twelve months consistent with observed decline rates.

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. 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.

The increase in oil and natural gas revenues for the three month period ended August 31, 2005 as compared to the three month period ended August 31, 2004 consisted of a \$39,000 increase in natural gas revenues along with a \$3,000 increase in crude oil revenues. The increase in natural gas revenues consisted of the addition of \$41,000 from the New Mexico properties, which were acquired in August 2004, offset by a \$2,000 decrease in Kansas revenues. Kansas natural gas revenues consisted of a 3,489Mcf (8%) decrease in production offset by a \$0.24/Mcf (7%) increase in natural gas selling price. New Mexico revenues consisted of 7,399 Mcf produced at an average selling price of \$5.59/Mcf. The increase in crude oil revenues consisted of a 19 Bbl (8%) increase in production and a \$10.00/Bbl (28%) increase in selling price.

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.

Leasing of asphalt products manufacturing and storage facilities:

The increase in asphalt equipment rental and throughput fees for the three and six month periods ended August 31, 2005 as compared to the three and six month periods ended August 31, 2004 was the result of a slight increase in quantities shipped from the facility along with the fact that total annual shipments exceeded 10,000 tons as of August 31, 2005, which triggered the recognition of supplemental throughput fees under the agreement with Paramount. The supplemental throughput fee provision of the contract had not been triggered during the six month period ended August 31, 2004. It is anticipated that Paramount's asphalt product shipments from the facility during the remainder of the current paving season will be consistent with end of paving season shipments during the prior year.

The increase in asphalt equipment rental and throughput 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.

Real estate rental:

The decrease in real estate rental revenues for the six months period ended August 31, 2005 as compared to the six month period ended August 31, 2004 consisted of an average \$66 per month decrease primarily due to a slight decrease in occupancy at Intermountain's Farmington, NM office building. Occupancy at the facility did however rebound slightly during the three month period ended August 31, 2005 as compared to the three month period ended August 31, 2004 which resulted in a \$15 per month increase. Intermountain presently has three small office spaces available for rent in the building.

The decrease in real estate rental revenues for the six month period ended August 31, 2004 as compared to six month period ended August 31, 2003 consisted of an average \$17 per month decrease due to a slight reduction in occupancy. In addition, as a result of the reduction in occupancy, real estate rental revenues decreased by an average \$133 per month during the three month period ended August 31, 2004 as compared to the three month period ended August 31, 2003.

Consulting fee revenues:

Consulting fee revenues decreased for the three and six month periods ended August 31, 2005 as compared to the three and six month periods ended August 31, 2004 due to the April 1, 2005 reduction in the monthly consulting fee charged to Red Hills Manufacturing. It is expected that the current consulting fee of \$250 per month will remain in effect 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, 2004 compared to the three and six month periods ended August 31, 2003.

Costs and Expenses:

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

| | <u>Three Months Ended</u> | | |
|---|---------------------------|-----------------|---------------------------|
| | August 31, <u>2004</u> | <u>% Change</u> | August 31, <u>2005</u> |
| Cost of sales | \$ 48,901 | 287% | \$ 189,492 |
| General and administrative costs | 67,835 | 0% | 67,931 |
| Depletion, depreciation and amortization | 12,238 | 11% | 13,556 |
| Accretion of discount on asset retirement obligations | 773 | (13)% | 672 |
| Impairment of electrical generation equipment | - | 100+% | 30,303 |
| Interest and investment (income) loss, net | <u>(2,812)</u> | <u>(68)%</u> | <u>(4,725)</u> |
| Total costs and expenses | <u>\$ 126,935</u> | <u>134%</u> | <u>\$ 297,229</u> |

| | <u>Six Months Ended</u> | | |
|---|---------------------------|-----------------|---------------------------|
| | August 31, <u>2004</u> | <u>% Change</u> | August 31, <u>2005</u> |
| Cost of sales | \$ 94,260 | 166% | \$ 250,859 |
| General and administrative costs | 147,796 | 3% | 151,589 |
| Depletion, depreciation and amortization | 25,164 | 6% | 26,739 |
| Accretion of discount on asset retirement obligations | 1,546 | (13)% | 1,343 |
| Asbestos abatement obligations | - | 100+% | 175,000 |
| Impairment of electrical generation equipment | - | 100+% | 30,303 |
| Interest and investment income, net | <u>(4,219)</u> | <u>(108)%</u> | <u>(8,764)</u> |
| Total costs and expenses | <u>\$ 264,547</u> | <u>137%</u> | <u>\$ 627,069</u> |

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, 2005 compared to the six months ended August 31, 2004 consisted of a \$167,000 increase oil and natural gas production costs offset by an \$11,000 decrease in asphalt facility maintenance costs (excluding asbestos abatement costs). The increase in oil and natural gas production costs consisted of a \$140,000 increase in Kansas natural gas production costs along with the addition of \$27,000 in production costs associated with the New Mexico natural gas properties that were acquired in August 2004. Production costs associated with the Nebraska oil properties were relatively unchanged. The significant increase in Kansas production costs was attributed to several major well equipment failures including three production casing failures. Well pump, production casing and tubing, and surface equipment failures occur randomly and the timing and cost of repairs cannot be accurately predicted.

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 increase in cost of sales for the three months ended August 31, 2005 compared to the three months ended August 31, 2004 consisted of a \$148,000 increase in oil and natural gas production costs offset by an \$8,000 decrease in asphalt facility maintenance costs (excluding asbestos abatement costs). The increase in oil and natural gas production costs consisted of a \$134,000 increase in Kansas production costs and the addition of \$14,000 production costs associated with the New Mexico gas properties that were acquired in August 2004. Production costs associated with the Nebraska properties were relatively unchanged. The significant increase in Kansas production costs was the result of three production casing failures.

The decrease in cost of sales for the three months ended August 31, 2004 compared to the three months ended August 31, 2003 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.

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, 2005 as compared to the six months ended August 31, 2004 was primarily the result of a \$4,000 increase in group insurance costs. General and administrative costs during the three month period August 31, 2005 compared to the three month period ended August 31, 2004 were relatively unchanged.

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.

Asbestos abatement obligation:

In April 2005, Intermountain initiated a project to dismantle portions of its refining equipment at its Fredonia facility that is no longer used for ongoing operations. As part of the dismantling process, Intermountain identified the presence of asbestos containing materials in portions of the equipment being dismantled. Intermountain engaged consultants to perform initial evaluations of the facility and to prepare plans for the abatement and disposal of the asbestos containing materials. Intermountain also engaged a certified asbestos abatement contractor to implement the abatement plan. As of May 31, 2005, Intermountain recognized an initial estimate of \$175,000 asbestos abatement costs. During the six month period ended August 31, 2005, Intermountain incurred \$163,357 of consulting and abatement costs associated with the obligation. Intermountain believes that abatement and disposal of the asbestos containing materials will be completed prior to the end of the current year. It is anticipated that Intermountain will recover a portion of the asbestos abatement costs from the reclamation and sale of scrap metals from the site.

Impairment of electric generation equipment:

During the six months ended August 31, 2005, Intermountain entered into a memorandum of understanding to sell its electric generation equipment, including the land and building on which the equipment is situated, to a regional electric power distributor for approximately \$274,000. As of August 31, 2005, Intermountain reclassified fuel inventory, valued at \$2,390, and land and generator building, valued at \$3,178 (net of accumulated depreciation of \$26,149), to electric generation equipment. In addition, during the six month period ended August 31, 2005, Intermountain capitalized \$28,378 for new fuel tanks and certain cooling system improvements to the electric generation equipment as provided by the memorandum of understanding. As of August 31, 2005, Intermountain recognized an additional impairment in value on the electric generation equipment of \$30,303 representing the excess of the then carrying value of the facility over the expected sale proceeds. It is anticipated that closing on the sale will take place in October, 2005.

Depreciation and Depletion:

Depreciation and depletion costs during the three and six month periods ended August 31, 2005 as compared to the three and six month periods ended August 31, 2004 was relatively unchanged but consisted of an increase in depletion expense (attributed mainly to the addition of the New Mexico gas properties) offset by a \$1,000 per month

decrease in asphalt facility depreciation.

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.

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 increase in interest and investment income for the six months ended August 31, 2005 as compared to the six months ended August 31, 2004 consisted of a \$1,900 increase in interest earned on cash balances along with a \$2,600 increase in investment income. The increase in interest and investment income for the three months ended August 31, 2005 as compared to the three months ended August 31, 2004 consisted of a \$2,200 increase in interest earned on cash balances offset by a \$300 decrease in investment income. Intermountain incurred no interest expense during the three and six month periods ended August 31, 2005 and August 31, 2004.

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. 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 and six month periods ended August 31, 2004 and August 31, 2003.

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 26, 2005, 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, 2005 through the solicitation of proxies or otherwise.

Financial Statements of Intermountain Refining Co., Inc.

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Intermountain Refining Co., Inc.**Balance Sheet – Unaudited****August 31, 2005****Assets****Current Assets**

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 824,079 |
| Accounts receivable | 151,789 |
| Prepaid expenses | <u>5,689</u> |
| Total Current Assets | 981,557 |

Property, Plant and Equipment, net of valuation allowances

| | |
|---|--------------------|
| Land, buildings and improvements - Note C | 355,092 |
| Equipment | 45,990 |
| Crude oil refining equipment | 581,919 |
| Oil and gas properties, (successful efforts method) | <u>1,473,390</u> |
| | 2,456,391 |
| Less accumulated depletion and depreciation | <u>(1,751,601)</u> |
| | 704,790 |

Other Assets

| | |
|---|----------------------------|
| Electric generation equipment available for sale - Note C | 273,643 |
| Available-for-sale investments | 127,137 |
| Other assets | <u>37,465</u> |
| | <u>438,245</u> |
| Total Assets | <u>\$ 2,124,592</u> |

Liabilities and Stockholders' Equity**Current Liabilities**

| | |
|--|------------|
| Accounts payable | \$ 218,456 |
| Asbestos abatement obligation - Note B | 11,643 |
| Taxes other than income taxes | 2,761 |
| Income taxes payable | <u>-</u> |
| Total Current Liabilities | 232,860 |

| | |
|-----------------------|--------|
| Deferred Taxes | 19,443 |
|-----------------------|--------|

| | |
|-------------------------------------|--------|
| Asset Retirement Obligations | 39,981 |
|-------------------------------------|--------|

| | |
|--------------------------------------|---|
| 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 | 340,884 |
| Accumulated other comprehensive gain | <u>36,110</u> |
| | <u>1,832,308</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 2,124,592</u> |

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

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

| | <u>Three months ended</u> | | <u>Six months ended</u> | |
|--|---------------------------|-------------------|-------------------------|-------------------|
| | <u>August 31,</u> | <u>August 31,</u> | <u>August 31,</u> | <u>August 31,</u> |
| | <u>2004</u> | <u>2005</u> | <u>2004</u> | <u>2005</u> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenues | | | | |
| Oil and gas production revenues, net of gathering fees and production and severance taxes | \$ 155,856 | \$ 198,488 | \$ 307,793 | \$ 391,776 |
| Asphalt equipment rental and throughput fees | 49,881 | 96,746 | 74,002 | 127,829 |
| Real estate rental income | 5,925 | 5,970 | 12,500 | 12,105 |
| Consulting fees | <u>9,000</u> | <u>750</u> | <u>18,000</u> | <u>4,250</u> |
| | 220,662 | 301,954 | 412,295 | 535,960 |
| Costs and Expenses | | | | |
| Cost of sales | 48,901 | 189,492 | 94,260 | 250,859 |
| General and administrative | 67,835 | 67,931 | 147,796 | 151,589 |
| Asbestos abatement costs - Note B | - | - | - | 175,000 |
| Impairment in value of electric generation equipment - Note C | - | 30,303 | - | 30,303 |
| Depletion, depreciation and amortization | 12,238 | 13,556 | 25,164 | 26,739 |
| Accretion of discount on asset retirement obligations | 773 | 672 | 1,546 | 1,343 |
| Interest and investment (income), net | <u>(2,812)</u> | <u>(4,725)</u> | <u>(4,219)</u> | <u>(8,764)</u> |
| | <u>126,935</u> | <u>297,229</u> | <u>264,547</u> | <u>627,069</u> |
| Income (Loss) From Operations Before Income Taxes | 93,727 | 4,725 | 147,748 | (91,109) |
| Provision (benefit) for income taxes | | | | |
| Current | 62 | - | 62 | - |
| Deferred | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>62</u> | <u>-</u> | <u>62</u> | <u>-</u> |
| Net Income (Loss) | 93,665 | 4,725 | 147,686 | (91,109) |
| Other Comprehensive Income, net of tax: | | | | |
| Unrealized gains (losses) on available for sale securities: | | | | |
| Unrealized holding gains on investments available for sale (net of deferred income tax expense of \$1,873 and \$2,370 for the three and six month periods ended August 31, 2004 respectively and \$8,101 and \$6,055 for the three and six month periods ended August 31, 2005 respectively. | 3,477 | 15,047 | 4,402 | 11,247 |
| Reclassification adjustment for realized loss pm sale of investments available for sale net of deferred tax of \$316 | <u>-</u> | <u>-</u> | <u>585</u> | <u>-</u> |
| Other comprehensive income | <u>3,477</u> | <u>15,047</u> | <u>4,987</u> | <u>11,247</u> |
| Comprehensive Income (Loss) | \$ 97,142 | \$ 19,772 | \$ 152,673 | \$ (79,862) |
| 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 | | | | |
| Net income (loss) | \$ 0.08 | \$ 0.00 | \$ 0.13 | \$ (0.08) |

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

Intermountain Refining Co., Inc.
Statements of Cash Flows

| | <u>Six months ended</u> | |
|--|---------------------------|---------------------------|
| | August 31, <u>2004</u> | August 31, <u>2005</u> |
| | (Unaudited) | (Unaudited) |
| Cash Flows From Operating Activities | | |
| Net income (loss) | \$ 147,686 | \$ (91,109) |
| Adjustments to reconcile net loss to net cash provided (used) by operating activities: | | |
| Depreciation, depletion and amortization | 25,164 | 26,739 |
| Accretion of discount on asset retirement obligations | 1,546 | 1,343 |
| Loss on sale of available for sale investments | 901 | - |
| Increase in asbestos abatement obligation | - | 11,643 |
| Impairment in value of electric generation equipment | - | 30,303 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 6,851 | (89,764) |
| Increase in prepaid expenses | (4,766) | (4,559) |
| Decrease in accounts payable and accrued expenses | (14,942) | 168,469 |
| Decrease in income taxes payable | <u>(149)</u> | <u>(402)</u> |
| Net Cash Flow Provided by Operating Activities | 162,291 | 52,635 |
| Cash Flows From Investing Activities | | |
| Settlement of asset retirement obligations | (15,740) | - |
| Purchase of oil producing properties | (411,429) | - |
| Purchases of available for sale investments | (100,525) | (2,951) |
| Proceeds from the sale of available for sale investments | 98,921 | - |
| Purchase of improvements to electric generation equipment available for sale | - | (28,378) |
| (Increase) decrease in cash value of life insurance policies | <u>(488)</u> | <u>(430)</u> |
| Net Cash Flow Used by Investing Activities | (429,261) | (31,731) |
| Increase (Decrease) in Cash and Cash Equivalents | (266,970) | 20,904 |
| Cash and Cash Equivalents at Beginning of Year | <u>895,373</u> | <u>803,175</u> |
| Cash and Cash Equivalents at End of Period | <u>\$ 628,403</u> | <u>\$ 824,079</u> |

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, 2005.

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

Intermountain paid income taxes of \$430 during the six month period ended August 31, 2005.

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. The increase in value included the reclassification to realized loss of \$585 net of deferred taxes of \$316.

During the six month period ended August 31, 2005, Intermountain's available for sale investments increased in value by \$11,247, net of deferred taxes of \$6,055.

During the six month period ended August 31, 2005, Intermountain reclassified fuel inventory valued at \$2,390, and land and building valued at \$3,178 (net of accumulated depreciation of \$26,149), to electric generation equipment available for sale.

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.

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, 2005 and the statements of operations for the three and six month periods ended August 31, 2004 and August 31, 2005, and the statements of cash flows for the six month periods ended August 31, 2004 and August 31, 2005 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, 2005, 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, 2005. The results of operations for the six months ended August 31, 2005 are not necessarily indicative of the operating results for the full year.

Note B – Asbestos Abatement Obligation:

In April 2005, Intermountain initiated a project to dismantle portions of its refining equipment at its Fredonia facility that is no longer used for ongoing operations. As part of the dismantling process, Intermountain identified the presence of asbestos containing materials in portions of the equipment being dismantled. Intermountain engaged consultants to perform initial evaluations of the facility and to prepare plans for the abatement and disposal of the asbestos containing materials. Intermountain also engaged a certified asbestos abatement contractor to implement the abatement plan. As of May 31, 2005, Intermountain recognized an initial estimate of \$175,0000 asbestos abatement costs. During the six month period ended August 31, 2005, Intermountain incurred \$163,357 of consulting and abatement costs associated with the obligation. Intermountain believes that abatement and disposal of the asbestos containing materials will be completed prior to the end of the current year. It is anticipated that Intermountain will recover a portion of the asbestos abatement costs from the reclamation and sale of scrap metals from the site.

Note C - Electric Generation Equipment Available for Sale:

During the six months ended August 31, 2005, Intermountain entered into a memorandum of understanding to sell its electric generation equipment, including the land and building on which the equipment is situated, to a regional electric power distributor for approximately \$274,000. As of August 31, 2005, Intermountain reclassified fuel inventory, valued at \$2,390, and land and generator building, valued at \$3,178 (net of accumulated depreciation of \$26,149) to electric generation equipment. In addition, during the six month period ended August 31, 2005, Intermountain capitalized \$28,378 for new fuel tanks and certain cooling system improvements to the electric generation equipment as provided by the memorandum of understanding. As of August 31, 2005, Intermountain recognized an additional impairment in value on the electric generation equipment of \$30,303 representing the excess of the then carrying value of the facility over the expected sale proceeds. It is anticipated that closing on the sale will take place in October 2005.

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, 2005.

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:

| <u>Exhibit</u> | <u>Description</u> |
|----------------|--|
| 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 10, 2005.

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 10, 2005
William N. Hagler, Chairman of the Board of
Directors, and President

/s/ Rick L. Hurt Date: October 10, 2005
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 in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying 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 10, 2005

/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 in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying 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 10, 2005

/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 10, 2005

/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 10, 2005

/s/ Rick L. Hurt

Rick L. Hurt

Treasurer and Chief Financial Officer