

GEOPETRO RESOURCES CO  
Form S-1/A  
January 09, 2007

As filed with the Securities and Exchange Commission on January 8, 2007

Registration No. 333-135485

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## AMENDMENT NO. 3 TO

## FORM S-1

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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## GEOPETRO RESOURCES COMPANY

(Exact Name of Registrant as specified in its Charter)

**California**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**1311**  
(Primary Standard Industrial  
Classification Code Number)

**94-3214487**  
(I.R.S. Employer  
Identification Number)

**One Maritime Plaza, Suite 700**  
**San Francisco, CA 94111**  
**(415) 398-8186**  
**(415) 398-9227-Fax**

(Address Including Zip Code and Telephone Number Including Area Code  
of Registrant's Principal Executive Offices)

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**Stuart J. Doshi**  
**President**  
**GeoPetro Resources Company**  
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(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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Approximate date of proposed sale to the public: As soon as practicable after this Registration Statement is declared effective.

## Edgar Filing: GEOPETRO RESOURCES CO - Form S-1/A

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.  x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.  o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  o

The Registrant hereby amends this Registrant Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Information contained in this prospectus is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

Subject to completion, dated January 8, 2007.

**PROSPECTUS**

**GEOPETRO RESOURCES COMPANY**

**35,257,573 shares of Common Stock**

**(No Par Value)**

**The Offering:** This offering relates to the possible sale, from time to time, by the shareholders listed on page 79 of this prospectus, the selling shareholders, of up to 35,257,573 shares of common stock of GeoPetro Resources Company. The shares of our common stock and securities which are convertible into or exercisable for shares of our common stock which are being offered by this prospectus were issued to the selling shareholders pursuant to financing transactions. We will not receive any proceeds from sales by selling shareholders. The selling shareholders may sell all or a portion of their shares covered by this prospectus through public or private transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices or negotiated prices, in negotiated transactions, or in trading markets for our common stock. We will bear all costs associated with this registration.

**Current Trading Market:** Our common stock is listed on the Toronto Stock Exchange under the symbol **GEP.s**. Our common stock has not been previously registered with the U.S. Securities and Exchange Commission ( **SEC** ) and those shares of our common stock which trade on the Toronto Stock Exchange may not presently be purchased by United States persons or persons in the United States pursuant to SEC Regulation S. Our common stock may also trade in the United States over-the-counter market in the Pink Sheets under the symbol **GPRC**. On January 8, 2007, the last reported sale prices for our common stock on The Toronto Stock Exchange and in the U.S. on the Pink Sheets were \$2.61 and \$2.85, respectively.

**Investing in our common stock involves a high degree of risk. See Risk Factors Beginning on Page 5.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**The date of this prospectus is** , 2007

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**You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The selling shareholders are not making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.**

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Unless otherwise specified or the context otherwise requires, all dollar amounts in this prospectus are expressed in U.S. dollars. Canadian dollars, when used, are expressed with the symbol "CDN\$". Unless otherwise specified, where dollars are shown on a converted basis, the conversion is based upon an exchange ratio of CDN\$1.00=\$.85, the exchange rate in effect on January 8, 2007, except for dollars set forth in or derived from the financial statements, where the exchange rate is derived as of the date of the financial statements.

## PROSPECTUS SUMMARY

*This summary highlights selected information contained in greater detail elsewhere in this prospectus and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, especially the risks of investing in our common stock, which we discuss under Risk Factors and our consolidated financial statements and related notes. Unless otherwise indicated or required by the context, we, us, and our refer to GeoPetro Resources Company and its subsidiaries and predecessors. All financial data included in this prospectus has been prepared in accordance with generally accepted accounting principles in the United States. We have provided definitions for some of the natural gas and oil industry terms used in this prospectus in the Glossary on page A-1 of this prospectus. All dollar amounts appearing in this prospectus are stated in U.S. dollars unless specifically noted in Canadian dollars ( CDN\$ ).*

## GEOPETRO RESOURCES COMPANY

**Offices:** Our principal executive offices are located at One Maritime Plaza, Suite 700, San Francisco, CA 94111. Our telephone number is (415) 398-8186.

**Our Business:** We are an oil and gas company originally incorporated in the State of Wyoming in August 1994 but incorporated in California since June 1996. Our business is the exploration and the production of oil and natural gas reserves on a worldwide basis. We currently have projects in the United States, Canada, Indonesia and Australia. The projects encompass approximately 1.56 million gross (396,080 net) acres consisting of mineral leases, production sharing contracts and exploration permits that give us the right to explore for, develop and produce crude oil and natural gas. We have developed a proven cash-flow generating property in our Madisonville Project in Texas which we operate. Elsewhere, we have assembled a geographically diversified portfolio of exploratory and appraisal prospects which we believe have the potential for oil and natural gas reserves.

**Corporate Strategy:** Our strategy is to maximize shareholder value through the exploration of oil and natural gas prospects. To carry out this philosophy we employ the following business strategies:

Identify and pursue projects which individually have the potential to be company makers which we define as projects which could generate a minimum unrisks net present value of \$50 million net to our interest using a 10% discount factor. Net present value means the estimated future net cash flows resulting from the sale of oil and gas less all of the operating and capital costs, discounted to present value using a 10% discount factor.

Unrisks in this context means that we have not reduced the future net cash flows to account for the risk of finding and producing the reserves;  
perform geological, engineering and geophysical evaluations;  
gain control of key acreage;  
generate high quality drillable exploration and lower-risk appraisal and development prospects;  
retain a large working interest in those projects which involve low risk development, exploitation or appraisal of proven, probable and possible reserves; and  
minimize early investment and exploration risk in higher risk exploratory prospects through farmouts to other oil and natural gas companies and maintain meaningful interests with a carry through the exploration phase.

**Management:** Stuart J. Doshi, David V. Creel and J. Chris Steinhauser, the three members of our senior management team, have a combined experience of approximately 100 years in the oil and gas industry. This experience covers a broad range of activity both onshore and offshore, domestic and international and from company start-up to mature progression and company sale. This experience also covers the entire spectrum of the risk profile in any particular project from early stage exploration through full development and production.

**Significant Risks:** Our business faces significant risks. Acquisition, exploration and overhead costs are high and have resulted in substantial losses since inception. There is a limited public market for our common shares, which may hinder our ability to raise equity capital (if needed) on advantageous terms, and there is intense competition in our industry. See Risk Factors beginning on page 5 for a detailed discussion of these risks.

- Madisonville Field:** We own and operate a 100% working interest in the Madisonville Project in Madison County, Texas. We own working interests in approximately 2,668 gross and net acres of leases in the Rodessa Formation interval, as well as approximately 1,849 gross and net acres of leases as to depths below the Rodessa Formation interval. In addition, we have entered into farmout agreements which require us to drill certain wells in order to earn 100% working interest rights in up to 1,742 acres in depths equivalent to the Rodessa Formation interval and deeper. In October 2001, we tested the Magness Well at rates of up to 20.8 MMcf/d. Production from this well commenced in May 2003 and stabilized at a rate of approximately 18 MMcf/d of raw gas as at October, 2003. In December 2004, the Fannin Well was drilled, completed and tested at rates of up to 25.7 MMcf/d. In 2006, we drilled the Wilson and Mitchell wells. Presently, the Fannin and Magness wells are producing at a combined restricted rate of approximately 16.5 MMcf/d while the Wilson and Mitchell wells are shut-in (not producing) awaiting completion and testing. The production rate is presently restricted awaiting a planned expansion of the gas treatment plant to 68 MMcf/d treating capacity. The well reserves are being produced from the Rodessa formation existing at approximately 12,000 feet of depth. We recently entered into a long-term agreement with MGP, the gas treatment plant owner, to process Rodessa formation natural gas. MGP has made a binding commitment to expand the capacity of the treatment plant from 18 MMcf/d to 68 MMcf/d. MGP is jointly owned by JPMorgan Partners and Bear Cub Investments LLC. Gateway Processing Company ( Gateway ) owns and operates an approximately nine-mile sales pipeline with an estimated capacity of approximately 70 MMcf/d to transport the natural gas from the Madisonville Field to two major pipelines in the area.
- Alaska CBM:** We entered into an agreement with Pioneer Oil Company, Inc. dated April 20, 2005, wherein we acquired a 100% working interest, 81% net revenue interest, in 122,174 acres onshore in Cook Inlet, near Anchorage, Alaska. Preliminary log analysis indicates the lease blocks may contain coal bed methane. CBM , reserves as well as conventional accumulations of natural gas in Tertiary sandstones. Please see the glossary on page A-1 for definitions of terms. The coals occur in seams which are commonly 20 feet thick and can be as thick as 70 feet. Accessible onshore areas have 200 to 300 feet of coal shallower than 5,000 feet. Gas content for these coals ranges from 80 to 250 standard cubic feet per ton. We may reduce exploration risk by finding participants to pay most or all of the money expended towards acquisition and initial exploration.
- Lokern Project:** We have a 100% working interest in 1,280 acres over a prospect in Kern County, California. An oil and gas prospect has been identified using reprocessed seismic. Please see the glossary on page A-1 for definitions of terms.
- Reef Project:** We, through our wholly-owned subsidiary, GeoPetro Canada Ltd. ( **GeoPetro Canada** ) have acquired seismic data and plan to participate in exploratory drilling targeting reef prospects located in the central Alberta basin, Canada, approximately 100 miles northeast of Calgary. We have a 56.25% working interest in 2,560 leased acres in the central Alberta basin.
- Bengara (II) PSC:** We, through our 12% ownership interest of Continental-GeoPetro (Bengara II) Ltd., a British Virgin Islands corporation ( **C-G Bengara** ) have a 12% interest in the Bengara (II) PSC Block in East Kalimantan, Indonesia (the **Bengara Block** ) which covers approximately 900,000 gross (108,000 net) acres. Two wells have been drilled in this block since 1938 and one of these resulted in a natural gas discovery, testing 19.5 MMcf/d together with 600 bbls condensate per day. Please see the glossary on page A-1 for definitions of terms. Elsewhere in the block, a large number of prospects and leads have been identified based primarily on seismic data. On September 29, 2006, we sold to CNPCHK (Indonesia) Limited ( **CNPC** ) 70% of our shareholding in the Company s Continental-GeoPetro (Bengara-II) Ltd. subsidiary and our interest in the Bengara (II) Block, reducing our interest from 40% to 12%. CNPC is a wholly owned subsidiary of CNPC (Hong Kong) Ltd. who is party to the agreements as guarantor. CNPC (Hong Kong) Ltd. is a publicly held company based in Hong Kong and its shares trade on the Hong Kong Stock Exchange under the listing number 0135.HK. CNPC (Hong Kong) Ltd. is a 52% owned subsidiary of the China National Petroleum Company based in Beijing, PRC.

**THE OFFERING**

**Common stock that may be offered by the selling shareholders:**

35,257,573 shares(1)

**Common stock to be outstanding immediately after this offering:**

34,391,573 shares(2)

**Use of proceeds:**

We will not receive any proceeds from the sales of our common stock by the selling shareholders.

**Risk factors:**

See Risk Factors and other information included in this prospectus for a discussion of some of the factors you should consider before deciding to purchase shares of our common stock.

**Proposed American Stock Exchange Symbol:(3) GPR**

(1) Includes 27,423,758 shares of common stock, 1,890,710 shares of common stock issuable upon conversion of Series AA Preferred Stock, 1,937,855 shares of common stock issuable upon exercise of warrants and 4,005,250 shares of common stock issuable upon exercise of options.

(2) Assumes the sale by the selling stockholders of all the shares of common stock available for resale under this prospectus, except for 866,000 shares of common stock which are issuable upon exercise of unvested options.

(3) We intend to file an application to have our common stock quoted on the American Stock Exchange.

## SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth certain of our summary consolidated financial data for the periods indicated. The data presented below has been derived from our financial statements included elsewhere in this prospectus. You should read this information together with the consolidated financial statements and the notes to those statements appearing elsewhere in this prospectus and the information under "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Nine Months Ended September 30, 2006 (unaudited)	September 30, 2005 (unaudited)	For The Years Ended December 31,		
			2005 (audited)	2004 (audited)	2003 (audited)
<b>Consolidated Statement of Operations:</b>					
Revenues	5,172,657	6,034,047	7,975,990	5,825,072	2,452,648
Lease operating expense	1,290,593	642,556	878,176	780,237	582,889
General and administrative	1,795,705	1,229,899	1,551,747	1,963,649	1,259,269
Net profits expense	540,378	680,329	856,837	579,590	225,869
Impairment expense				2,038,422	473,496
Depreciation and depletion expense	1,818,621	1,511,363	1,832,693	2,077,004	798,555
Earnings (loss) from operations	(272,640 )	1,969,900	2,856,537	(1,613,830 )	(887,430 )
Net income (loss)	(303,693 )	1,775,466	2,640,471	(2,077,615 )	(1,684,692 )
Net income (loss) attributable to common shareholders	(811,841 )	1,379,507	2,111,074	(2,606,978 )	(1,943,565 )
<b>Earnings (Loss) per Share:</b>					
Basic	(0.03 )	0.07	0.10	(0.14 )	(0.12 )
Diluted	(0.03 )	0.06	0.09	(0.14 )	(0.12 )
<b>Weighted Average Number of Common Shares Outstanding:</b>					
Basic	25,532,531	20,796,117	20,890,841	18,901,607	16,497,898
Diluted	25,532,531	24,507,285	24,001,888	18,901,607	16,497,898
<b>Production Data:</b>					
Natural gas (Mcf)	1,683,739	1,624,172	1,991,105	2,316,895	1,217,327
Natural gas (Mcf/d)	6,168	5,949	5,455	6,348	3,335
<b>Production Data reduced by net profits interests:</b>					
Natural gas (Mcf)	1,473,272	1,421,150	1,742,217	2,027,283	1,065,161
Natural gas (Mcf/d)	5,397	5,206	4,773	5,554	2,918
<b>Average Sales Prices:</b>					
Natural gas (per Mcf)	3.07	3.72	4.01	2.51	2.01

	As of September 30, 2006 (unaudited)	As of December 31, 2005 (audited)	2004 (audited)	2003 (audited)
<b>Balance Sheet Information:</b>				
Current Assets	4,755,034	1,718,893	1,579,388	2,967,626
Total Assets	41,357,481	25,014,826	22,771,411	18,875,981
Current liabilities	5,927,072	3,574,466	7,582,377	1,471,248
Long-term liabilities	28,615	26,641	24,705	5,242,554
Deferred income taxes				
Accumulated Deficit	(10,194,020 )	(9,382,179 )	(11,493,253 )	(8,886,275 )



## RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this prospectus before making an investment decision. If any of the possible adverse events described below actually occurs, our business, results of operations and financial condition could suffer. Under these circumstances, the market price of our common stock could decline and you could lose all or part of your investment.

### Risks Related to Our Business

*As of September 30, 2006 we have capitalized costs totaling \$47.5 million as evaluated and unevaluated oil, and gas properties whereas we have generated revenues of only \$21,426,367 since January 1, 2003.*

Since inception, our activities have been primarily related to acquiring and exploring leasehold interests in oil and natural gas properties in Texas, California, Alaska, Alberta, Indonesia and Australia. We incur substantial acquisition and exploration costs and overhead expenses in our operations, and until 2003, excluding minor interest and dividend income, our only significant cash inflows were the recovery of capital invested in projects through sale or other divestitures of interests in oil and gas prospects to industry partners. As a result, we have sustained an accumulated deficit through September 30, 2006 of \$10,194,020. Our production activities commenced in May 2003. Since May 2003, over 90% of our revenue has been generated from natural gas sales derived from the Magness #1 well in the Madisonville Field in Texas. It is possible that in the future we will be unable to continue to generate revenues from our sales of natural gas from the Magness #1 well because our proved reserves decline as reserves are produced from the Magness #1 well. The drilling of exploratory oil and natural gas wells is highly speculative and often unproductive. Our participation in future drilling activities to explore, develop and exploit the properties in which we have an interest, or in which we may acquire interests, may be unsuccessful, may fail to generate positive cash flow, and may not enable us to maintain profitability in the future.

*Approximately 99% of our current revenues are generated by our interest in the Madisonville Project. Delays or interruptions of the Madisonville Project natural gas drilling and production operations including, but not limited to, events beyond our control or the failure of third parties on which we rely to provide key services, could negatively impact our revenues.*

Approximately 99% of our oil and natural gas revenues for the year ended December 31, 2005 and the nine months ended September 30, 2006 were derived from the Madisonville Project. In connection with that project, we have contracted with third parties to provide key services, including:

- (a) Madisonville Gas Processing, LP ( **MGP** ), which owns and operates gathering pipelines and a dedicated natural gas treatment plant which we utilize to treat impurities in the Madisonville Project natural gas; and
- (b) Gateway, which operates a sales pipeline for such natural gas.

The failure of MGP or Gateway to perform their contractual obligations to us could impose delays or interruptions in our production operations and prevent us from generating revenues. In addition, events which are beyond our control, or that of Gateway or MGP, could affect our production operations. Such events include, but are not limited to:

- events referred to as force majeure, such as an act of God, act of a public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion and any other causes whether of the kind enumerated or otherwise not reasonably within the control of MGP, Gateway or our company.
- subsurface conditions or formations encountered during the drilling of wells, whether natural or mechanical, including but not limited to blowout, igneous rock, salt, saltwater flow, loss of

circulation, loss of hole, abnormal pressures, or any other impenetrable substance or adverse condition, which renders further drilling of a well impossible or impractical.

- the inability to secure raw materials or equipment,
- transportation accidents, and
- labor disputes and equipment failures.

***In excess of 90% of our revenues to date have been derived from sales by MGP to two customers. The loss of one or both these customers could have a material adverse impact on our oil and gas revenues.***

Approximately 99% of our oil and natural gas revenues for the year ended December 31, 2005 and the nine months ended September 30, 2006 were derived from the Madisonville Project. During 2005, all of these revenues were derived from the sale of gas by MGP and Hanover Compression Limited Partnership ( **HANOVER** ) to one customer, Atmos Pipeline-Texas. In the current year, approximately 99% of our revenues to date have been derived from sales by MGP to two customers, Atmos Pipeline-Texas, and ETC Katy Pipeline, Ltd. The loss of one of these customers could impact the price we receive for our gas sold due to lessened competition. The loss of both customers could result in a total loss of our revenue.

***Unless we replace our oil and natural gas reserves, our reserves and production will decline.***

The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Our proved reserves will decline as reserves are produced from our properties unless we are able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive. For example, as of September 30, 2006 we have capitalized costs totaling \$47.5 million as evaluated and unevaluated oil and gas properties. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, our ability to make the necessary capital investment to maintain or expand our asset base of oil and natural gas reserves will be impaired. Even if we are able to raise capital to develop or acquire additional properties, no assurance can be given that our future exploitation and development drilling activities will result in the discovery of any reserves.

***Our exploration and development drilling activities may not be commercially successful. The drilling of exploratory oil and natural gas wells is expensive, highly speculative and often unproductive.***

Exploration for oil and natural gas on unproven prospects is expensive, highly speculative and involves a high degree of risk, including the risk that no commercially productive oil or natural gas reservoirs will be encountered. Reserves are dependent on our ability to successfully complete drilling activity on proven prospects.

The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors, including:

- unexpected drilling conditions, pressure or irregularities in formations;
- equipment failures or accidents, adverse weather conditions;
- compliance with governmental requirements; and
- shortages or delays in the availability of drilling rigs and the delivery of equipment.

***Our evaluations of the oil and gas prospects of our properties may be wrong.***

With the exception of the Madisonville Project, the properties in which we have an interest are prospects in which the presence of oil and natural gas reserves in commercial quantities has not been



established. Any decision to engage in exploratory drilling or other activities on any of these properties will be dependent in part on the evaluation of data compiled by petroleum engineers and geologists and obtained through geophysical testing and geological analysis.

Reservoir engineering, geophysics and geology are not exact sciences and the results of studies and tests used to make such evaluations are sometimes inconclusive or subject to varying interpretations. As such, there is no certain way to know in advance whether any of our prospects will yield oil and natural gas in commercial quantities. Further, it is possible that we will participate in the drilling of more dry holes than productive wells or that all or substantially all of the wells drilled will be dry holes. The drilling of dry holes on prospects in which we have an interest could adversely affect their values and our decision to undertake further exploration and development drilling of such prospects. It is not certain or predictable whether, and no assurance can be made that, the wells drilled on the properties in which we have an interest will be productive or, if productive, that we will recover all or any part of our investment in the properties. In sum, our participation in future drilling activities may not be successful and, if unsuccessful, such failure will negatively impact our revenues and have a material adverse effect on our results of operations and financial condition. Our oil and natural gas revenues were \$7.98 million for the year ended December 31, 2005 and \$5.17 million for the nine months ended September 30, 2006. Future revenues could decline from those levels if our future drilling efforts are not successful. Furthermore, as of September 30, 2006 we have capitalized costs totaling \$47.5 million as evaluated and unevaluated oil and gas properties. Should our future drilling activities be unsuccessful, we may then be required to record an impairment charge equal to a portion of, or all, of the capitalized costs resulting in an immediate adverse impact on our results of operations and financial position.

***Our business may be harmed by failures of third party operators on which we rely.***

Our ability to manage and mitigate the various risks associated with certain of our exploration and operations in Alberta, Canada, Indonesia and Australia is limited since we rely on third parties to operate our projects. We are a non-operating interest owner in our Canadian, Indonesian and Australian properties. With respect to our interests outside of the United States, we have entered into joint operating agreements with third party operators for the conduct and supervision of drilling, completion and production operations. In the event that commercial quantities of oil and natural gas are discovered on one of our properties, the success of the oil and natural gas operations on that property depends in large measure on whether the operator of the property properly performs its obligations. The failure of such operators and their contractors to perform their services in a proper manner could result in materially adverse consequences to the owners of interests in that particular property, including us.

***Our percentage share of oil and gas revenues from our Indonesian property will be diminished by the terms of our production sharing contract in the Bengara Block***

On September 29, 2006, we sold 70% of our interest in C-G Bengara to CNPC (Hong Kong) Limited, thus reducing our interest in C-G Bengara from 40% to 12%. C-G Bengara is subject to a production sharing contract, which means generally that C-G Bengara is entitled to receive, from production proceeds, 100% of expenditures in the block as cost recovery. Once these costs are recovered, C-G Bengara's production share will be reduced to approximately 26.7% of oil produced and 62.5% of all natural gas produced. We are entitled to 12% of C-G Bengara's reduced share of any such production. See the discussion under Properties on page 43 of this prospectus for more information concerning the production sharing contract.

***Drilling and completion equipment, services, supplies and personnel are scarce and may not be available when needed, which could significantly disrupt or delay our operations.***

From time to time, there has been a general shortage of drilling rigs, equipment, supplies and oilfield services in North America, Australia and Indonesia, which may intensify with current increased industry activity. In addition, the costs and delivery times of rigs, equipment and supplies have risen. There can be no assurance that sufficient drilling and completion equipment, services and supplies will be available when needed. Shortages could delay our proposed exploration, development drilling, and sales activities, which could have a material adverse effect on our results of operations. Our oil and natural gas revenues were \$7.98 million for the year ended December 31, 2005 and \$5.17 million for the nine months ended September 30, 2006. Future revenues could decline from those levels if we experience delays in our proposed exploration, development drilling, and sales activities. The demand for, and wage rates of, qualified rig crews have risen in the drilling industry due to the increasing number of active rigs in service. If the demand for qualified rig crews continues to rise in the drilling industry, then the oil and gas industry may experience shortages of qualified personnel to operate drilling rigs. This could delay our drilling operations and adversely affect our financial condition and results of operations.

***Our working interest in properties, and our ability to realize any profits from such properties, will be diminished to the extent that we enter into farmout arrangements with unaffiliated third parties.***

We have previously entered into, and may in the future enter into, farmout arrangements with third parties willing to drill natural gas and oil wells on leaseholds in which we originally acquired working interests, in exchange for our assignment of part or all of our leasehold interests. As a consequence of these arrangements, our retained interests in properties which are subject to farmout arrangements have been or may be diminished. Our opportunity to realize revenues and profits from properties which are successfully developed under farmout arrangements will be diminished to the extent of our reduced interests.

We recently sold 70% of our working interest in the Bengara Block to an unaffiliated third party. The sale significantly diminished our interest and thus our ability to realize future profits in the Bengara Block.

***Competition with other oil and natural gas exploration and development drilling companies for viable oil and natural gas properties may limit our success.***

It is likely that in seeking future property acquisitions, we will compete with companies which have substantially greater financial and management resources. Our competition comes primarily from three sources:

- (a) those competitors that are seeking oil and gas fields for expansion, further drilling, or increased production through improved engineering techniques;
- (b) income-seeking entities purchasing a predictable stream of earnings based upon historic production from fields being acquired; and
- (c) junior companies seeking exploration opportunities in unknown, unproven territories.

Our competitors may be able to pay more for productive oil and natural gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than we can. Our ability to acquire additional properties in the future will depend upon our ability to conduct efficient operations, evaluate and select suitable properties, implement advanced technologies and consummate transactions in a highly competitive environment.

***Estimates of oil and natural gas reserves are inherently imprecise. Any material inaccuracies in these reserve estimates or underlying assumptions will affect materially the quantities and present value of our reserves.***

Estimates of proved oil and natural gas reserves and the future net cash flows attributable to those reserves are prepared by independent petroleum engineers and geologists. There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves and cash flows attributable to such reserves, including factors beyond our control and that of our engineers. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. Different reserve engineers may make different estimates of reserves and cash flows based on the same available data. The accuracy of an estimate of quantities of reserves, or of cash flows attributable to such reserves, is a function of the available data, assumptions regarding future oil and natural gas prices and expenditures for future development drilling and exploration activities, and of engineering and geological interpretation and judgment. Additionally, reserves and future cash flows may be subject to material downward or upward revisions, based upon production history, development drilling and exploration activities and prices of oil and natural gas. Actual future production, revenue, taxes, development drilling expenditures, operating expenses, underlying information, quantities of recoverable reserves and the value of cash flows from such reserves may vary significantly from the assumptions and underlying information set forth herein.

***Competitive pressures may force us to implement new technologies at substantial cost and our limited financial resources may limit our ability to implement such technologies at the same rate as our competitors.***

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before we do. There can be no assurance that we will be able to respond to such competitive pressures and implement such technologies on a timely basis or at all. One or more of the technologies currently utilized by us or implemented in the future may become obsolete.

***We will require additional capital to fund our future activities. Our ability to pursue our business plan may be restricted by our access to additional financing.***

Until such time as the properties in which we own interests are generating sufficient cash flow to fund planned capital expenditures, we will be required to raise additional capital through the issuance of additional securities or otherwise sell or farm out interests in our oil and natural gas properties to third parties. If and when the properties in which we own interests become productive and have adequate reserves, we may borrow funds to finance our future oil and natural gas operations and exploratory and development drilling activities. We may not be able to raise additional funds in the future from any source or, if such additional funds are made available to us, we may not be able to obtain such additional financing on terms acceptable to us. To the extent such funds are not available from any of those sources, our operations and activities will be limited to those operations and activities we can afford with the funds then available to us. We have committed to a three well drilling program in our Madisonville project to facilitate the expansion of the gas treatment plant. The commitment is not discretionary. While we have fulfilled the commitment to drill the first two wells of the three well commitment, we are further required to commence the drilling of a third well sufficient to test the Smackover Formation (estimated to be encountered at approximately 18,000 feet) on or before September 30, 2008. This well is expected to cost approximately \$10 million to drill and complete. We have granted MGP a security interest in the Madisonville Field properties to secure the three well commitment. Subject to events of force majeure, and the availability of suitable drilling rigs, well services, and equipment, our failure to drill this well could result in the loss of our interest in the Madisonville Project. Our larger competitors, by reason of their size and relative financial strength, may be more easily able to access capital markets than us.

***The volatility in crude oil and natural gas prices could adversely affect our financial results and ability to raise additional capital.***

Our revenues, cash flows and profitability are substantially dependent on prevailing prices for both oil and natural gas. Decreases in natural gas prices will decrease revenues and cash flows from the Madisonville Project and our other producing properties, if any, and decreases in oil and natural gas prices could deter potential investors from investing in our company and generally impede our ability to raise additional financing to fund our exploration and development drilling activities. Historically, oil and natural gas prices and markets have been volatile, and they are likely to continue to be volatile in the future. Prices for oil and natural gas are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control. These factors include, but are not limited to, political conditions in the Middle East and other regions, internal and political decisions of OPEC and other oil and natural gas producing nations to decrease or increase production of crude oil, domestic and foreign supplies of oil and natural gas, consumer demand, weather conditions, domestic and foreign government regulations, transportation costs, the price and availability of alternative fuels and overall economic conditions.

Our current operations are particularly exposed to volatility in natural gas prices because a portion of the fees we pay to process natural gas at the Madisonville gas treatment plant is fixed. The sale price of natural gas must be above a minimum price of approximately \$3.00 per Mcf at the present time before we earn any net revenues from the sale of natural gas.

***We are subject to a number of operational risks beyond our control against which we may not have, or be able to obtain insurance.***

Our operations are subject to the many risks and hazards incident to exploring and drilling for, and producing and transporting, oil and natural gas, including among other risks:

- blowouts, fires, craterings, pollution and equipment failures that may result in damage to or destruction of wells, producing formations, production facilities and equipment;
- personal injuries or death due to accidents, human error or acts of God;
- unavailability of materials and equipment to drill and complete or re-complete wells; unfavorable weather conditions; engineering and construction delays;
- fluctuations in product markets and prices; proximity and capacity of pipeline, and trucking or termination facilities to our oil and natural gas reserves; hazards resulting from unusual or unexpected geological or environmental conditions; environmental regulations and requirements;
- accidental leakage of toxic or hazardous materials, such as petroleum liquids or drilling fluids into the environment, remediation and clean-up costs; and
- political instability and civil unrest, insurrections or disruptions in foreign countries in which some of our interests are located.

If one or more of these events occurs, we could incur substantial liabilities to third parties or governmental entities, the payment of which could have a material adverse effect on our financial condition and results of operations, or we could lose properties in which we have invested significant sums (totaling \$47.5 million) which are capitalized as evaluated and unevaluated oil and gas properties as of September 30, 2006.

***A loss not covered by insurance could result in substantial expenses to us.***

We do not insure fully against all business risks either because such insurance is not available or because premium costs are prohibitive. This is a common practice in the oil and gas industry. However, a loss not fully covered by insurance could result in expenses to us and could have a material adverse effect on our financial position and results of operations. Uninsured losses in excess of \$1.0 million would be materially adverse.

***We are subject to extensive government regulations that can change from time to time, compliance with which are costly and could negatively impact our production, operations and financial results.***

The oil and gas industry is subject to extensive government regulations in the countries in which we operate. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, unitization and pooling of properties and taxation. Historically, our costs of complying with these regulations have not exceeded \$100,000 per year. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and natural gas wells below actual production capacity in order to conserve supplies of oil and natural gas. We are also subject to changing and extensive tax laws, the effects of which cannot be predicted. Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effects on our operations. Future laws, or existing laws or regulations, as currently interpreted or reinterpreted or changed in the future, could result in increased operating costs, fines and liabilities, in amounts which are unknown at this time any of which could materially adversely affect our results of operations and financial condition.

***Our industry is subject to extensive environmental regulation that may limit our operations and negatively impact our production.***

Extensive national, state, provincial and local environmental laws and regulations in the United States and foreign jurisdictions affect nearly all of our operations. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation.

Environmental legislation may require that we, among other things:

- acquire permits before commencing drilling;
- restrict spills, releases or emissions of various substances produced in association with our operations;
- limit or prohibit drilling activities on protected areas such as wetlands or wilderness areas;
- take reclamation measures to prevent pollution from former operations;
- take remedial measures to mitigate pollution from former operations, such as plugging abandoned wells and remediating contaminated soil and groundwater;
- take remedial measures with respect to property designated as a contaminated site.

The cost of any of these actions is presently unknown but is likely to be significant.

***Compliance with existing or future environmental legislation is unknown but could be substantial.***

Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties. The discharge of oil, natural gas or other pollutants into the air, soil or





water may give rise to liabilities to governments and third parties and may require us to incur substantial costs to remedy such discharge. Under these laws and regulations, we could be liable for personal injury, clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. We could be required to cease production on properties if environmental damage occurs. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. Changes in, or enforcement of, environmental laws may result in a curtailment of our production activities, or a material increase in the costs of production, development drilling or exploration, any of which could have a material adverse effect on our financial condition and results of operations or prospects. We are not presently aware of any environmental liabilities or able to predict the ultimate cost of liabilities not yet recognized. We have recorded an asset retirement obligation in connection with the estimated future costs to plug the wells upon an abandonment totaling approximately \$28,615 as of September 30, 2006.

***Our Australian operations are subject to unique risks relating to Aboriginal land claims and government licenses.***

Our Australian operations could be affected by native title claims by Aboriginal groups. Australian law recognizes that in some instances native title, that is the laws and customs of the Aboriginal inhabitants, has survived European settlement. Native title will only survive if it has not been extinguished. Native title may be extinguished by an Act of Government, such as the creation of a title that is inconsistent with native title. This may include a grant of the right to exclusive possession through freehold title or lease. Native title may also be extinguished if the connection between the land and the group of Aboriginal people claiming native title has been lost. Each authority to prospect, and license in areas in which we desire to engage in exploration or production activities must be examined individually in order to determine the validity of any native title claim. We may be required to negotiate with any Aborigines who can make a valid claim to having ancestral ties to the areas in which we desire to engage in exploration or production activities. These negotiations could both delay the timing of our exploration or production activities, as well as add an additional layer of cost or a requirement to share revenues if any Aboriginal claimants are proved to have native title rights in our exploration areas.

***Our natural gas deliveries to the Madisonville gas treatment plant may be affected by the demands of Crimson Exploration, Inc. ( Crimson ) and other third parties for access to the plant, and as a result, our access to the plant could be restricted.***

We are dependent upon the Madisonville gas treatment plant to treat our natural gas. We have committed all natural gas production from our interest in the Madisonville Project to MGP, which has in turn committed to provide treatment capacity of up t