

GEOPETRO RESOURCES CO  
Form 10-K  
March 31, 2014  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**Form 10-K**

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

**For the fiscal year ended December 31, 2013**

**OR**

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

**For the transition period from                      to**

**Commission File Number 001-16749**

**GeoPetro Resources Company**

(Exact name of registrant as specified in its charter)

**California**  
(State of incorporation)

**94-3214487**  
(IRS Employer Identification Number)

**150 California Street, Suite 600**

**94111**

**San Francisco, CA**

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(Address of principal executive offices) (Zip Code)

**(415) 398-8186**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, No Par Value	OTCQB US

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer   Accelerated filer

Non-accelerated filer   Smaller Reporting Company

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

The aggregate market value of the registrant’s common stock held by non-affiliates was approximately \$3,669,425 based on the closing sale price of \$0.07 per share as reported by NYSE MKT on June 28, 2013.

The number of shares of the registrant’s common stock outstanding on March 31, 2014 was 68,491,074.

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## **CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

We are including the following discussion to inform our existing and potential security holders generally of some of the risks and uncertainties that can affect our company and to take advantage of the “safe harbor” protection for forward-looking statements that applicable federal securities law affords.

From time to time, our management or persons acting on our behalf may make forward-looking statements to inform existing and potential security holders about our company. All statements other than statements of historical facts included in this report regarding our financial position, business strategy, plans and objectives of management for future operations, industry conditions, and indebtedness covenant compliance are forward-looking statements. When used in this report, forward-looking statements are generally accompanied by terms or phrases such as “estimate,” “project,” “predict,” “believe,” “expect,” “anticipate,” “target,” “plan,” “intend,” “seek,” “goal,” “will,” “should,” “may” or other similar expressions that convey the uncertainty of future events or outcomes. Items contemplating or making assumptions about actual or potential future sales, market size, collaborations, and trends or operating results also constitute such forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond our company’s control) that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following: general economic or industry conditions, nationally and/or in the communities in which our company conducts business, changes in the interest rate environment, legislation or regulatory requirements, geological, geophysical, and engineering uncertainties, timing of operating activities, estimates of reserves and production, conditions of the securities markets, our ability to raise capital, changes in accounting principles, policies or guidelines, financial or political instability, acts of war or terrorism, other economic, competitive, governmental, regulatory and technical factors affecting our company’s operations, products, services and prices.

We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. Accordingly, results actually achieved may differ materially from expected results in these statements. Forward-looking statements speak only as of the date they are made. You should consider carefully the statements in “Item 1A. Risk Factors” and other sections of this report, which describe factors that could cause our actual results to differ from those set forth in the forward-looking statements. Our company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We assume no obligation to update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, other than as may be required by applicable law or regulation. Readers are urged to carefully review and consider the various disclosures made by us in our reports filed with the United States Securities and Exchange Commission (“SEC”) which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operation and cash flows. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected or projected.

**GEOPETRO RESOURCES COMPANY**

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## **PART I**

### **Item 1. Business**

We were incorporated in the State of Wyoming in August 1994 under the name GeoPetro Company as an oil and gas exploration, development drilling and production company. In June 1996, we merged with our wholly-owned subsidiary, GeoPetro Resources Subsidiary Company, a California corporation, and the resulting merged company is incorporated in the state of California under the California General Corporation Law under the name GeoPetro Resources Company (“GeoPetro”). Our principal and registered office is located at 150 California Street, Suite 600, San Francisco, California, USA 94111. We maintain a website located at [www.geopetro.com](http://www.geopetro.com).

On February 28, 2013, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”), with MCW Energy Group Limited, an Ontario corporation (“MCW”), and MCW CA SUB, a California corporation and a wholly-owned subsidiary of Parent (“Merger Sub”). On April 4, 2013, the Company entered into an amendment (the “Amendment”) to the Merger Agreement. Pursuant to the Merger Agreement and subject to the terms and conditions set forth therein, Merger Sub will merge with and into the Company (the “Merger”) and the Company will survive the Merger and continue as a subsidiary of MCW. The Merger Agreement has been approved by Boards of Directors of each of the Company, MCW and Merger Sub. The merger is subject to customary closing conditions, including regulatory and shareholder approval. A material consideration for GeoPetro to pursue the merger was the Parent Financing of \$20,000,000 which was to be completed prior to closing. As of March 31, 2014, MCW has yet to complete the Parent Financing contemplated by the Merger Agreement. Since the merger did not close by September 30, 2013, either party may terminate the Merger Agreement.

### **Inter-Corporate Relationships**

We hold 100% of the shares of Redwood Energy Company (“Redwood”), a Texas corporation. Redwood is the general partner of, and holds a 5% interest in, Redwood Energy Production, L.P. (“Redwood LP”), a Texas limited partnership. We are the sole limited partner of Redwood LP and own the remaining 95% partnership interest in Redwood LP. Redwood also holds a 100% interest in Madisonville Midstream LLC (“Madisonville Midstream”), a Texas limited liability company.

We hold a 100% interest in GeoPetro Alaska LLC (“GeoPetro Alaska”), an Alaska limited liability company; a 100% interest in GeoPetro Pacific LLC (“GeoPetro Pacific”), a Delaware limited liability company; and a 100% interest in South Texas GeoPetro, LLC (“South Texas GeoPetro”), a Texas limited liability company.



We also hold 100% of the shares of GeoPetro Canada Ltd. (“GeoPetro Canada”), an Alberta corporation; and 100% of the shares of GeoPetro International Ltd., a British Virgin Islands company.

In addition, we hold a 12% interest in Continental-GeoPetro (Bengara II) Ltd. (“C-G Bengara”), a British Virgin Islands company.

### **General Development of the Business**

We have conducted leasehold acquisition and exploration activities on our North American prospects. These projects currently consist of mineral leases and exploration permits that give us the right to explore for, develop and produce oil and natural gas. Some of these properties are in the exploration, appraisal or development drilling phase and have not begun to produce revenue from the sale of oil and natural gas.

In December 2000, we acquired working interests in oil and natural gas leases in the Madisonville Field in Madison County, Texas, including interests in the Rodessa Formation. Also included in the acquisition was the Magness Well, an existing well that had been drilled, cased and production tested in the Rodessa Formation. In October 2001, we re-completed and tested the Magness Well. In October 2002, we drilled, completed and successfully tested an injection well to dispose of waste products resulting from the treating process for gas produced from the Rodessa Formation. The Madisonville Field gas treatment plant and associated pipelines, which were built specifically for this project, were placed into service in May 2003, and the Magness Well began production in late May 2003. The first development well in the Madisonville Field, the Fannin Well, was drilled in 2005. In 2006, we drilled the Wilson and Mitchell wells. We own a 100% working interest in the four wells. Since 2003, substantially all of our revenue has been generated from natural gas sales derived from the Madisonville Field, and the Madisonville Project was our primary source of revenue in 2012. On December 31, 2008, GeoPetro acquired the gas treatment plant, as well as the related gas gathering pipelines and facilities. This acquisition has allowed the Company to improve operating efficiencies by consolidating the upstream and midstream portions of the Madisonville project. By owning the midstream portion of the Madisonville project, we not only expect better net price realizations and operational efficiencies (i.e. improved volume realizations), but we also control the timing and design of the expansion of the plant facilities as well as future expansions, if needed. Historically, our wells have been production constrained at certain times by the gas treatment plant at the Madisonville Field, which has a design treating capacity limit of approximately 18 MMcf/d. See “Properties — Description of the Properties — Texas — The Madisonville Gas Treatment Plant and Gathering Facilities.”



## Growth Strategy

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

identify and pursue potential projects which individually have the potential to be “company makers” which we define as projects which could generate a minimum unrisksed net present value of \$50 million net to our interest using a 10% discount factor;

perform geological, geophysical and engineering evaluations;

gain control of key acreage;

generate high quality

drillable  
exploration  
and  
development  
drilling  
prospects;

retain a large  
working  
interest in  
those  
projects  
which  
involve low  
risk  
development  
drilling,  
appraisal or  
exploration  
of proved,  
probable and  
possible  
reserves; and

minimize  
early  
investment  
and  
exploration  
risk in higher  
risk  
exploratory  
prospects  
through  
farm-outs  
and sale of  
assets to  
other oil and  
natural gas  
companies  
and maintain  
meaningful  
interests with  
a “carry”  
through the  
exploration  
phase.

## **Risks Associated With Operations**

Our business activities are subject to political and economic risks, including: loss of revenue, property and equipment as a result of unforeseen events like expropriation, nationalization, war, terrorist attacks and insurrection; risks of increases in import, export and transportation regulations and tariffs, taxes and governmental royalties; various regulatory approvals required to conduct drilling and other operations; renegotiation of contracts with governmental entities; exchange controls, and numerous other factors. Any one or more of such political or economic conditions could change to our detriment. For a related discussion of the risks attendant with our foreign operations, see “Risk Factors.”

## **Regulations**

Domestic exploration, production and sale of oil and gas are extensively regulated at both the federal and state levels. Our business is and will be directly or indirectly affected by numerous governmental laws and regulations applicable to the energy industry, including:

Federal  
environmental  
laws and  
regulations

State  
environmental  
laws and  
regulations

Local  
environmental  
laws and  
regulations

Federal energy  
laws and  
regulations

Conservation  
laws and  
regulations

Tax and other  
laws and  
regulations  
pertaining to  
the energy  
industry

Legislation, rules and regulations affecting the oil and gas industry are under constant review for amendment or expansion, frequently increasing the regulatory burden. Any changes in the existing legislation, rules or regulations could adversely affect our business. The regulatory burdens are often costly to comply with and carry substantial penalties for failure to comply.

Our operations and activities are subject to numerous federal, state and local environmental laws and regulations. These laws and regulations:

require the acquisition of permits;

restrict the type, quantities and concentration of various substances that can be discharged into the environment;

limit or prohibit drilling and other activities on wetlands and other designated, protected areas;

regulate the generation, handling, storage, transportation, disposal and treatment of waste materials; and

impose criminal or civil liabilities for pollution resulting from oil and natural gas operations

We expect that with increases in our exploratory and development drilling activities, the impact of environmental laws and regulations on our business and operations will also increase. We may be required in the future to make substantial outlays of money to comply with environmental laws and regulations. Additional changes in operating procedures and expenditures to comply with future environmental laws cannot be predicted.

We do not operate all of the oil and gas properties in which we own an interest. In those instances, we are not in a position to exert direct control over compliance with most of the rules and regulations discussed above. We are substantially dependent on the operators of our non-operated oil and gas properties to monitor, administer and oversee such compliance. The failure of the operator to comply with such rules and regulations could result in substantial liabilities to us.

As the operator of the Madisonville Project, among other various environmental laws and regulations, we are subject to the U.S. Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and any comparable legislation adopted by Texas which imposes strict, joint and several liability on owners and operators of properties and on persons who dispose of or arrange for the disposal of "hazardous substances" found on or under the sites of such properties.

Under CERCLA, one owner, lessee or other party, having responsibility for and an interest in a site requiring cleanup may, under certain circumstances, be required to bear a disproportionate share of liability for the cost of such cleanup if payments cannot be obtained from other responsible parties. The Resource Conservation and Recovery Act ("RCRA") and comparable rules adopted by Texas and other states regulate the generation, management and disposal of hazardous oil and gas waste.

The Railroad Commission of Texas ("RRC") has been delegated the responsibility and authority to regulate and prevent pollution from oil and gas operations, including the prevention of pollution of surface or subsurface water resulting from the drilling of oil and gas wells and the production of oil and gas. In addition to regulating the generation, management and disposal of hazardous oil and gas waste, the RRC has been delegated authority to regulate underground hydrocarbon storage, saltwater disposal pits and injection wells.

The drilling of oil and gas wells in Texas requires operators to obtain drilling permits, file an organization report, issue a performance bond or other form of financial security, such as a letter of credit, and obtain a permit to maintain pits to store and dispose of drilling fluids, saltwater and waste as well as other types of pits for other purposes. The issuance of such permits is conditioned upon the RRC's determination that these pits will not result in waste or pollution of surface or subsurface water.

Other states in which we have an interest in oil and gas properties may impose similar or more stringent regulations than imposed under CERCLA or RCRA.



To date, we have re-completed an existing producing well and drilled three additional wells and an injection well in the Madisonville Project as operator. In addition, we may drill oil, gas and disposal wells in the future as the operator and will be required to obtain local government and other permits to drill such wells. There can be no assurance that such permits will be available on a timely basis or at all. Texas and other states have statutes or regulations pertaining to conservation matters which, among other matters, regulate the unitization or pooling of gas properties and the spacing, plugging and abandonment of such wells and set limits on the maximum rates of natural gas that can be produced from gas wells.

In re-completing the existing well on the Madisonville Project, we were required to drill a well for injection or disposal of produced waste gas from the wells. Injection wells are subject to regulation under the Safe Drinking Water Act (“SDWA”) and the regulations and procedures which have been adopted by the Environmental Protection Agency (“EPA”) under that Act. Generally, enforcement procedures under the SDWA are administered by the EPA unless such authority has been delegated by the EPA to a state which has primary enforcement responsibility based on the EPA’s determination that the state has adopted drinking water regulations no less stringent than the national primary drinking water regulations and meets certain other criteria. Underground injection wells not used for the underground injection of natural gas for storage are generally unlawful and subject to penalties under the SWDA unless authorized by:

permit issued  
by the EPA or  
a state having  
primary  
enforcement  
responsibility,  
or

rule pursuant  
to an  
underground  
injection  
control  
program  
established by  
a state or the  
EPA.

To the extent our pipelines transport natural gas in interstate commerce, the rates, terms and conditions of that transportation service are subject to regulation by the Federal Energy Regulatory Commission (“FERC”), pursuant to Section 311 of the Natural Gas Policy Act of 1978 (“NGPA”), which regulates, among other things, the provision of transportation services by an intrastate natural gas pipeline on behalf of an interstate natural gas pipeline. Under the Energy Policy Act of 2005, the FERC has authority to impose penalties for violations of the Natural Gas Act, up to \$1 million per day for each violation and disgorgement of profits associated with any violation.

The regulatory burden on the oil and natural gas industry increases our cost of doing business. Future developments, such as stricter requirements of environmental or health and safety laws and regulations affecting our business or more stringent interpretations of, or enforcement policies with respect to, such laws and regulations, could adversely affect us. To meet changing permitting and operational standards, we may be required, over time, to make site or operational modifications at our facilities, some of which might be significant and could involve substantial capital expenditures. There can be no assurance that material costs or liabilities will not arise from these or additional environmental matters that may be discovered or otherwise may arise from future requirements of law. See “Risk Factors — Risks Related to Our Business”

## Foreign Regulations

In the exploration, drilling and development of any Non-US property, we will be required to comply with the environmental, conservation, tax and other laws and regulations in those jurisdictions.

## Technology

We participate in projects utilizing economically feasible exploration technology in our exploration and development drilling activities to reduce risks, lower costs, and more efficiently produce oil and gas. We believe that the availability of cost effective 2-D and 3-D seismic data makes its use in exploration and development drilling activities attractive from a risk management perspective in certain areas.

Briefly, through the use of a seismograph, a seismic survey sends pulses of sound from the surface down into the earth, and records the echoes reflected back to the surface. By calculating the speed at which sound travels through the various layers of rock, it is possible to estimate the depth to the reflecting surface. It then becomes possible to infer the structure of rock deep below the earth's surface. We evaluate substantially all of our exploratory prospects using 2-D seismic data. In addition, we own a license as to approximately 12 square miles of 3-D seismic data covering our leasehold and adjacent lands in the Madisonville Project.

The use of seismic technology does not entirely remove the risk of exploration and development drilling of oil and natural gas deposits. It is important to consider the following:

we may not  
recognize  
significant  
geological  
features due to  
errors in  
interpretation,  
processing  
limitations,  
the presence  
of certain  
geological  
environments  
that are out of  
our control or

other factors;

seismic  
generally  
becomes less  
reliable with  
increasing  
depth of the  
geological  
horizon; and

the use of this  
technology  
may increase  
our finding  
cost.

## **Principal Products**

Our principal product is natural gas produced from a property in which we own a 100% working interest. We also have interests in other undeveloped oil and gas properties. See “Properties” for a general description of these properties.

During the last two fiscal years, 100% of our revenues have been derived from the sale of natural gas. Substantially all of our natural gas sales have been generated by three producing wells located in the Madisonville Field in East Texas. Natural gas produced by the wells is delivered via a gathering pipeline to a nearby gas treatment plant where the gas is treated to remove impurities. From the plant, the natural gas is transported approximately nine miles to one of two common carrier pipelines. This delivery point is where all natural gas sales occur. The price received for the natural gas is the Houston Ship Channel price index less certain adjustments.

## **Reserves**

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.

## **Acquisition of Producing Properties**

We may supplement our exploration efforts with acquisitions of producing oil and gas properties. We may seek to acquire producing properties that are underperforming relative to their potential.

## **Patents, Trademarks, Licenses, and Franchises Held**

Permits and licenses are important to our operations, since they allow the search for and the extraction of any oil, gas and minerals discovered on the areas covered.. See “Properties” for a general description of the permits and licenses under which we operate.

## **Seasonality of Business**

Our business is not seasonal.

### **Working Capital Items**

The majority of our current assets are in the form of cash received from the sale of natural gas from our Madisonville Project in Texas, amounts received from the sale of common and preferred stock in private placements, cash received from the issuance of debt instruments and cash received from the disposition of our interests in oil and gas properties. We use this cash to pay for the cost of our operations, service of debt facilities, and other administrative activities. For further information see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

### **Customers**

Substantially all of our revenues are derived from sales to two customers, Luminant Energy Company, LLC and ETC Katy Pipeline, Ltd., of natural gas produced from our Madisonville Project in Texas. We contract to sell the gas with spot-market based contracts that vary with market forces. We have not committed any forward sales of our natural gas. During 2012 all of our revenue was derived from one customer. The loss of this customer could result in the loss of our revenues, which would have a material adverse effect on our results of operations. See “Risk Factors”.

## **Competition**

The oil and natural gas industry is intensely competitive and speculative in all of its phases. We encounter competition from other oil and natural gas companies in all areas of our operations. In seeking suitable oil and natural gas properties for acquisition, we compete with other companies operating in our areas of interest, including large oil and natural gas companies and other independent operators, which have greater financial resources and in many instances, have been engaged in the exploration and production business for a much longer time than we have. Many of our competitors also have substantially larger operating staffs than we do. Many of these competitors not only explore for and produce oil and natural gas but also market oil and natural gas and other products on a regional, national or worldwide basis. These competitors may be able to pay more for productive oil and natural gas properties and exploratory prospects and define, evaluate, bid for and purchase a greater number of properties and prospects than us. In addition, these competitors may have a greater ability to continue exploration activities during periods of low market prices. Our ability to acquire additional properties and to discover reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment.

The prices of our natural gas production are controlled by market forces. However, competition in the oil and natural gas exploration industry also exists in the form of competition to acquire leases and obtain favorable transportation prices. Our Company is relatively small and may have difficulty acquiring additional acreage and/or projects and may have difficulty arranging for the transportation of our production. We also face competition in obtaining oil and natural gas drilling rigs and in sourcing the manpower to run them and provide related services.

## **Employees**

We have 4 employees. We use the services of independent consultants and contractors to perform various professional services, including geologic, geophysical, petroleum, reservoir & drilling engineering, land, legal, environmental and tax services. On those properties where we are not the operator, we rely on outside operators to drill, produce and market our oil and natural gas.

## **Available Information**

We maintain a website located at <http://www.geopetro.com> and electronic copies of our annual, quarterly and current reports, and any amendments to those reports, as well as our code of ethics, are available free of charge under the Investor Relations link on our website. This information is available on our website, as soon as practicable after such material is filed with, or furnished to, the SEC.

**Item 1A. Risk Factors**

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our industry and our company could materially impact our future performance and results of operations. We have provided below a list of these risk factors that should be reviewed when considering our securities. These are not all the risks we face and other factors currently considered immaterial or unknown to us may impact our future operations.

**Risks Related to Our Business**

*Because of our historic losses from operations since inception, there is substantial doubt about our ability to continue as a going concern.*

In their report dated March 31, 2014, our independent registered public accounting firm stated that our financial statements for the year ended December 31, 2013, were prepared assuming that we would continue as a going concern. We have incurred recurring losses that have resulted in an accumulated deficit attributable to common shareholders of approximately \$53,000,000 as of December 31, 2013. Although we had approximately \$10,000 of available cash at December 31, 2013, that amount is not adequate to meet our capital expenditure and operating requirements over the next 12 months. These factors raise substantial doubt about the ability of the Company to continue as a going concern. We are dependent upon obtaining funds from financing sources to meet our cash flow requirements. If we are unsuccessful in doing so, we would be required to substantially reduce our business plan or our business could be substantially impaired.



***As of December 31, 2013, we have gross capitalized costs totaling \$65.3 million as proved and unproved oil and gas properties and gas processing plant whereas we have generated revenues of only \$44.5 million since January 1, 2003 and no revenues during the fiscal year ended December 31, 2013.***

Since inception, our activities have been primarily related to acquiring and exploring leasehold interests in oil and natural gas properties. We have incurred 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 December 31, 2013 of \$53.0 million. Our production activities commenced in May 2003. Since May 2003, over 98% of our revenue has been generated from natural gas sales derived from wells 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 our Madisonville Field wells because our proved reserves decline as reserves are produced from the wells. 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.

***We may be unable to successfully expand the capacity of the Madisonville Gas Treatment Plant.***

We own and operate, through Madisonville Midstream, gathering pipelines and a dedicated natural gas treatment plant (which we refer to as the Madisonville Gas Treatment Plant), to treat impurities in the natural gas generated by our Madisonville Project. We plan to expand the Madisonville Gas Treatment Plant's treatment capacity from 18 MMcf/d to 30 MMcf/d. There can be no assurance that we will be able to accomplish the expansion and achieve a full treatment capacity of 30 MMcf/d.

***Even if we are able to successfully complete the expansion of the Madisonville Gas Treatment Plant from 18 MMcf/d to 30 MMcf/d, third parties may seek access to the plant through regulatory proceedings, which could limit our use of the Plant and disrupt our production operations.***

Third parties have, and may in the future, seek access to the Madisonville Gas Treatment Plant through regulatory proceedings, which could restrict our access to the Plant, disrupt our production operations and negatively impact our revenues. An example of such a proceeding is the complaint that was filed by Crimson Exploration Inc. ("Crimson") with the Railroad Commission of Texas in 2006 described under "Properties — Description of the Properties — Texas — The Madisonville Gas Treatment Plant and Gathering Facilities."

Substantially all of our revenues have been generated from natural gas sales derived from wells in the Madisonville Field, and 100% of our natural gas generated from the wells in the Madisonville Field is treated at the Madisonville Gas Treatment Plant. If our ability to treat natural gas at the Madisonville Gas Treatment Plant is limited for any reason, including but not limited to increased demands by third parties, our revenues may be adversely affected.

*All 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.*

All of our natural gas revenues for 2012 were derived from the Madisonville Project. In connection with that project, we have contracted with Gateway-Madisonville Pipeline, LLC (“Gateway”) which operates a sales pipeline for natural gas.

The failure of Gateway to perform its 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, 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 Gateway;

the inability  
to secure raw  
materials or  
equipment;

transportation  
accidents;  
and

labor  
disputes and  
equipment  
failures.

10

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***We do not own all of the land on which our pipelines and facilities are located, and we are therefore subject to the possibility of not being able to retain necessary land use and associated increased costs.***

We have the right to operate our pipelines on land owned by third parties for specified periods of time. Our loss of these rights, through our inability to renew rights-of-way contracts, leases or otherwise, could result in the suspension of our operations, or increased costs related to continuing operations elsewhere, which would have a material adverse effect on our business, results of operations and financial condition.

***If third-party pipelines and other facilities interconnected to our natural gas pipelines and processing facilities become partially or fully unavailable to transport natural gas, our revenues could be adversely affected.***

We depend upon third party pipelines and other facilities to provide delivery options from the Madisonville Gas Treatment Plant to our customers. If any of these third party pipelines become unavailable to transport the natural gas produced at the Plant, or if the gas quality specifications for these pipelines or facilities change, we would be required to find alternate means to transport our natural gas out of the Plant, which could increase our costs, reduce the revenues we might obtain from the sale of our natural gas or reduce our ability to process natural gas at the Plant.

***100% of our revenue in 2012 was derived from sales to a single customer. The loss of this customer could have a material adverse impact on our oil and gas revenues.***

100% of our natural gas sales and revenue for the year ended December 31, 2012 were derived from the Madisonville Project, and 100% of our revenue was derived from sales to one customer, Luminant Energy Company, LLC. The loss of this customer could impact the price we receive for our gas sold due to lessened competition. The loss of, or material nonpayment by the customer could result in a loss of revenue. Our customer may be subject to their own operating risks which could increase the risk that they could default on their obligation to us.

***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 December 31, 2013 we have capitalized costs of \$65.3 million as proved and unproved oil and gas properties and gas processing plant. 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 exploration 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;

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;

equipment  
failures or  
accidents,  
adverse  
weather  
conditions;

compliance  
with  
governmental  
requirements;  
and

shortages or  
delays in the  
availability of  
drilling rigs,  
the delivery of  
equipment,  
and  
availability of  
qualified  
manpower.

***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, geologists and geophysicists 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 summary, our participation in future drilling activities may not be successful and, if unsuccessful, such failure may negatively impact our revenues and have a material adverse effect on our results of operations and financial condition. Furthermore, as of December 31, 2013 we have net capitalized costs totaling approximately \$23 million as proved and unproved oil and gas properties and gas processing plant. 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 exploration and operations in Alaska and Australia is limited since we rely on third parties to operate our projects. We are a non-operating interest owner in our Alaskan and Australian properties. With respect to our interests in Alaska and Australia, we have entered into 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 working interest in properties, and our ability to realize any profits from such properties, will be diminished to the extent that we enter into farm-out arrangements with unaffiliated third parties.***

We have previously entered into, and may in the future enter into, farm-out arrangements with third parties willing to drill oil and natural gas 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 farm-out arrangements have been or may be diminished. Our opportunity to realize revenues and profits from properties which are successfully developed under farm-out arrangements will be diminished to the extent of our reduced interests.

***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:

those  
competitors  
that are seeking  
oil and gas  
fields for  
expansion,  
(1) further drilling,  
or increased  
production  
through  
improved  
engineering  
techniques;

income-seeking  
entities  
purchasing a  
predictable  
stream of  
(2) earnings based  
upon historic  
production  
from fields  
being acquired;  
and

(3) 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, debt and/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. 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 and taxation, transportation costs, the price and availability of alternative fuels, the impact of energy conservation efforts and overall economic conditions.

***Risks associated with recent economic trends have adversely affected, and could further adversely affect our financial performance.***

The global financial markets experienced volatility in the past few years, including diminished liquidity and credit availability. We believe these conditions have adversely impacted our financial position as of December 31, 2013 and our liquidity for the twelve months ended December 31, 2013. Our financial condition and performance could be further negatively impacted if there is further deterioration in financial markets and major economies.

***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,  
pipelines,  
producing  
formations,  
production  
facilities and  
equipment;

damage to  
pipelines,  
facilities and  
properties  
caused by  
hurricanes,  
tornados,  
floods and  
other natural

disasters;

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;

unfavorable  
regulatory  
conditions  
resulting in  
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 capitalized as proved and unproved oil and gas properties and gas processing plant as of December 31, 2013.

***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. We are not insured against all environmental accidents that might occur which may include toxic tort claims. If a significant accident or event occurs that is not fully insured, if we fail to recover all anticipated insurance proceeds for significant accidents or events for which we are insured, or if we fail to rebuild facilities damaged by such accidents or events, our operations and financial condition could be adversely affected. In addition, we may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased substantially, and could escalate further. For example, following Hurricanes Katrina and Rita, insurance premiums, deductibles and co-insurance requirements increased substantially, and terms generally are less favorable than terms that could be obtained prior to such hurricanes. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. 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.

***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. Environmental laws to which we are subject in the U.S. include, but are not limited to, (1) the Clean Air Act and comparable state laws that impose obligations related to air emissions, (2) the Resource Conservation and Recovery Act of 1976 (“RCRA”), and comparable state laws that impose requirements for the handling, storage, treatment or disposal of solid and hazardous waste from our facilities, (3) the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”) and comparable state laws that regulate the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by us or at locations to which our hazardous substances have been transported for disposal, and (4) the Clean Water Act, and comparable state laws that regulate discharges of wastewater from our facilities to state and federal waters and (5) the California Environmental Quality Act (“CEQA”), which is a statute that requires state and local agencies to identify the significant environmental impacts of their actions and to avoid and mitigate these impacts, if feasible. Failure to comply with these laws and regulations or newly adopted laws or regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations or imposing additional compliance requirements on such operations. Certain environmental laws, including CERCLA and analogous state laws, impose strict, joint and several liability for costs required to clean up and restore sites where hazardous substances or hydrocarbons have been disposed or otherwise released. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances, hydrocarbons or other waste products into the environment.

Environmental legislation may require that we:



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.

There is inherent risk of incurring environmental costs and liabilities in connection with our operations due to our handling of natural gas and other petroleum products, air emissions and water discharges related to our operations, and historical industry operations and waste disposal practices. The costs of any of these liabilities are presently unknown but could be significant. We may not be able to recover all or any of these costs from insurance

We are not presently aware of any environmental liabilities or able to predict the ultimate cost of liabilities not yet recognized. We have not established a separate reserve fund for the purpose of funding any possible future environmental liability. As a result, we may not be able to satisfy these obligations, if they occur. Any such costs incurred will be funded out of our cash flow from operations. If we are unable to fully fund the cost of remedying an environmental obligation, we might be required to suspend operations or enter into interim compliance measures pending satisfaction of the liability, which could have an adverse affect on our financial condition and results of operations. We have recorded an asset requirement obligation in connection with the estimated future costs to plug certain wells at our Madisonville Project in Texas upon abandonment totaling \$75,000 as of December 31, 2013.

*The effects of future environmental legislation on our business are unknown but could be substantial.*

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, delays in commencement of drilling operations, 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. In addition, many countries, as well as several states in the United States have agreed to regulate emissions of “greenhouse gases.” Methane, a primary component of natural gas, and carbon dioxide, a byproduct of burning natural gas, are greenhouse gases. Regulation of greenhouse gases could adversely impact some of our operations and demand for products in the future.

*Potential regulations regarding climate change could alter the way we conduct our business.*

Governments around the world are beginning to address climate change matters. This may result in new environmental regulations that may unfavorably impact us, our suppliers and our customers. The cost of meeting these requirements may have an adverse impact on our financial condition, results of operations and cash flows.

*Should we fail to comply with all applicable FERC administered statutes, rules, regulations and orders, we could be subject to substantial penalties and fines.*

Under the Energy Policy Act of 2005, FERC has authority to impose penalties for violations of the Natural Gas Act, up to \$1 million per day for each violation and disgorgement of profits associated with any violation. FERC has recently proposed and adopted regulations that may subject our facilities to reporting and posting requirements. Additional rules and legislation pertaining to these and other matters may be considered or adopted by FERC from time to time. Failure to comply with FERC regulations could subject us to civil penalties.

*We may incur significant costs and liabilities as a result of pipeline integrity management program testing and any related pipeline repair or preventative or remedial measures.*

The United States Department of Transportation has adopted regulations requiring pipeline operators to develop integrity management programs for transportation pipelines located where a leak or rupture could do the most harm in “high consequence areas.” The regulations require operators to:

perform  
ongoing  
assessments  
of  
pipeline  
integrity;

identify and  
characterize  
applicable  
threats to  
pipeline  
segments  
that could  
impact a high  
consequence  
area;

improve data  
collection,  
integration  
and analysis;

repair and  
remediate the  
pipeline as  
necessary;  
and

implement  
preventive  
and  
mitigating  
actions.

*Political and/or economic conditions could change in manners that negatively affect our operations and prospects.*

Our business activities are subject to political and economic risks, including: loss of revenue, property and equipment as a result of unforeseen events like expropriation, nationalization, war, terrorist attacks and insurrection; increases in import, export and transportation regulations and tariffs, taxes and governmental royalties; renegotiation of contracts with governmental entities; changes in laws and policies governing operations of foreign-based companies; exchange controls, currency fluctuations and other uncertainties arising out of foreign government sovereignty over international operations; laws and policies affecting foreign trade, taxation and investment; and the possibility of being subject to the exclusive jurisdiction of foreign courts in connection with legal disputes and the possible inability to subject foreign persons to the jurisdiction of courts in the United States.

***Terrorist attacks could have an adverse effect on our oil and natural gas operations, especially overseas.***

To date, our operations have not been disrupted by terrorist activity. It is uncertain how terrorist activity will affect us in the future, or what steps, if any, governments may take in response to terrorist activities. The attack on the New York World Trade Center in 2001 and the subsequent wars in Afghanistan and Iraq and continued political unrest in the Middle East increase the likelihood that U.S. citizens and U.S. owned interests may be targeted by terrorist groups operating both in the United States and in foreign countries.

***We could lose our ownership interests in our properties due to a title defect of which we are not presently aware.***

As is customary in the oil and gas industry, only a perfunctory title examination, if any, is conducted at the time properties believed to be suitable for drilling operations are first acquired. Before starting drilling operations, a more thorough title examination is usually conducted and curative work is performed on known significant title defects. We typically depend upon title opinions prepared at the request of the operator of the property to be drilled. The existence of a title defect on one or more of the properties in which we have an interest could render it worthless and could result in a large expense to our business. Industry standard forms of operating agreements usually provide that the operator of an oil and natural gas property is not to be monetarily liable for loss or impairment of title. The operating agreements to which we may become a party to could provide that, in the event of a monetary loss arising from title failure, the loss shall be borne by all parties in proportion to their interest owned.

***Our acquisition activities are subject to uncertainties and may not be successful or provide a return to us on our investments.***

We have grown primarily through acquisitions and intend to continue acquiring undeveloped oil and gas properties. Although we perform a review of the properties proposed to be acquired, such reviews are subject to uncertainties. It generally is not feasible to review in detail every individual property involved in an acquisition. Ordinarily, management review efforts are focused on the higher-valued properties; however, even a detailed review of all properties and records may not reveal existing or potential problems; nor will it permit us to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. Inspections are not always performed on every well, and potential problems, such as mechanical integrity of equipment and environmental conditions that may require significant remedial expenditures, are not necessarily observable even when an inspection is undertaken.

***We are dependent upon our key officers and employees and our inability to retain and attract key personnel could significantly hinder our growth strategy and cause our business to fail.***

While no assurances can be given that our current management resources will enable us to succeed as planned, a loss of one or more of our current directors, officers or key employees could severely and negatively impact our operations and delay or preclude us from achieving our business objectives. We could suffer the loss of key individuals for one reason or another at any time in the future. Stuart Doshi has over 40 years of experience in the oil and gas industry. There is no guarantee that we could attract or locate another individual with similar skills or experience to carry out our business objectives. We maintain “key man” insurance with respect to our Chief Executive Officer, Stuart Doshi.

***Some of our directors may become subject to conflicts of interest which could impair their abilities to act in our best interest.***

David Anderson, one of our directors, is vice chairman and officer of Dundee Securities Ltd., an investment banking firm that was the lead underwriter of our public offering of common stock in Canada and concurrent previous private placement of common shares with qualified institutional buyers in the U.S. The association with other companies in the oil and gas business may give rise to conflicts of interest from time to time. For example, they could be presented with business opportunities in their capacities as our directors, which they could, in turn, offer to the other companies for whom they also serve as directors, rather than to us, whose interests might be competitive with ours. Our directors are required by law to act honestly and in good faith with a view to our best interests and to disclose any interest which they may have in any project or opportunity to us; however, their interests in the other companies may affect their judgment and cause such directors to act in a manner that is not necessarily in our best interests.

***Our directors and officers hold significant positions in our shares and their interests may not always be aligned with those of our other shareholders.***

As of December 31, 2013 our directors and officers beneficially own approximately 8% of our outstanding common stock. This shareholding level will allow the directors, officers and certain beneficial owners to have a significant degree of influence on matters that are required to be approved by shareholders, including the election of directors and the approval of significant transactions. The short-term interests of our directors, officers and certain beneficial owners may not always be aligned with the long-term interests of our public shareholders, and vice versa. Because our directors, officers and certain beneficial owners have a significant degree of influence on matters that are required to be approved by our shareholders, they could influence the approval of transactions.

***Our failure to manage internal or acquisition-based growth may cause operational difficulties and negatively affect our financial performance.***

We expect to experience internal and/or acquisition-based growth, which may bring many challenges. Growth in the number of employees, sales and operations will place additional pressure on already limited resources and infrastructure. No assurances can be given that we will be able to effectively manage this or future growth. Our growth may place a significant strain on our managerial, operational, financial and other resources. Our success will depend upon our ability to manage our growth effectively which will require that we continue to implement and improve our operational, administrative, financial and accounting systems and controls and continue to expand, train and manage our employee base. Our systems, procedures and controls may not be adequate to support our operations and our management may not be able to achieve the rapid execution necessary to exploit the market for our business model. If we are unable to manage internal and/or acquisition-based growth effectively, our business, results of operations and financial condition may be materially adversely affected.

***Risks associated with our liquidity.***

In 2014 we will need to raise capital. Due to our liquidity issues, funds may not be available, or may be available only on unfavorable terms. Due to the decrease in our stock price, we may need to sell more shares to raise the same amount of money than we would have in the past, resulting in greater dilution to existing shareholders than would be the case if our stock price was higher and this trend could continue. We have scheduled exploratory and development well drilling and workover activity during 2014 and future periods on our proved and unproved properties. It is anticipated that these activities together with others that we may undertake will impose financial requirements which will exceed our existing working capital. We may raise additional equity and/or debt capital, and we may farm-out certain of our projects to finance our continued participation in planned activities; however, if additional financing is not available, we may be compelled to reduce the scope of our business activities. If we are unable to fund planned expenditures, it may be necessary to:

sell working  
interests and  
assets in the  
Madisonville  
operations to  
other parties;

farm-out our  
interest in  
proposed  
wells;



forfeit our  
interest in  
wells that are  
proposed to be  
drilled; and/or

reduce general  
and  
administrative  
expenses.

Further, considering our liquidity issues, we may have to resort to raising capital or selling assets on less favorable terms than may otherwise be available.

### **Risks Related to Our Common Stock**

*The shareholding position of holders of our common stock could be diluted by future issuances and conversions of other securities.*

If our options and warrants are exercised for common shares, holders of our common stock will experience immediate and, depending on the magnitude of the exercises, substantial dilution. As of March 31, 2014, there are 68,491,074 shares of our common stock outstanding, 5,370,027 shares of our Series B Preferred stock outstanding, 5,062,205 shares of our common stock are issuable upon exercise of warrants and 955,000 shares of our common stock are issuable upon exercise of options.

Investors may be subject to further dilution if we sell additional common shares or issue additional common shares in connection with future financings. If a significant number of our common shares are sold in the public market, the market price of our common shares could be depressed. This could hamper our ability to raise capital by issuing additional equity securities.

*Our results may be affected by fluctuations in currency exchange rates.*

Our financial statements are reported in U.S. dollars and all of our revenue, and most of our operating costs, are currently denominated in U.S. dollars; however, we have operations outside the United States where our operating costs will be denominated in local currencies. Fluctuations in exchange rates may increase our relative cost of operating and may therefore have a negative effect on our financial results.



***Non-U.S. holders of our common shares may be subject to U.S. federal income tax on the sale of our common shares and purchasers may have IRS withholding requirements***

Since we believe that we are a United States real property holding corporation, a gain recognized by a non-U.S. holder on the sale of our common shares will be subject to U.S. federal income tax at normal graduated rates, and a purchaser may be required to withhold for the benefit of the IRS a percentage of the purchase price, unless certain trading requirements are met.

***There is a limited public market for our common shares, and the ability of our shareholders to dispose of their common shares may be limited.***

Our common shares have been trading on either the OTCQB or NYSE MKT (formerly the American Stock Exchange) since February 15, 2007. We cannot foresee the degree of liquidity that will be associated with our common shares. A holder of our common shares may not be able to liquidate his, her or its investment in a short time period or at the market prices that currently exist at the time the holder decides to sell. The purchase and sale of relatively small common share positions may result in disproportionately large increases or decreases in the price of our common shares. A trade involving a large number of common shares could have an exaggerated effect on the reported market price of our common shares.

***Our stock price may fluctuate significantly.***

The stock market in general and the market for oil and natural gas exploration companies have experienced price and volume fluctuations that are often unrelated or disproportionate to the operating results or asset values of companies. These broad market and industry factors may seriously impact the market price and trading volume of our common shares regardless of our actual operating performance. The market price of our common stock could also fluctuate significantly as a result of:

actual or  
anticipated  
quarterly  
variations in  
our operating  
results and our  
reserve  
estimates;

changes in expectations as to our future financial performance or changes in financial estimates, if any, of public market analysts;

announcements relating to our business or the business of our competitors;

conditions generally affecting the oil and natural gas industry, including changes in oil and natural gas prices;

speculation in the press or investment community;

general market and economic conditions;

the success of our operating strategy; and

the operating and stock price performance of other comparable companies.

*The sale of large numbers of our common stock may depress the market price of our common stock.*

The sale of a substantial number of shares of our common stock in the public market, or the perception that substantial sales may occur, could cause the market price of our common stock to decrease. Substantially all of the shares of our common stock are freely transferable or will be transferable in compliance with restrictions under the Securities Act of 1933, as amended. In 2014, we will need to raise additional working capital and investors may be subject to further dilution if we sell additional common shares or issue additional common shares in connection with future financings. If a significant number of our common shares are sold in the public market, the market price of our common shares could be depressed. This could hamper our ability to raise capital by issuing additional equity securities.

*We will continue to incur significant expenses as a result of being a public company, which may negatively impact our financial performance.*

We have incurred and will continue to incur significant legal, accounting, insurance and other expenses as a result of being a public company. The Sarbanes-Oxley Act of 2002, as well as related rules implemented by the SEC, the NYSE MKT and the OTCQB have required changes in corporate governance practices of public companies. Compliance with these laws, rules and regulations has increased our expenses, including our legal and accounting costs, and made some activities more time-consuming and costly. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers. Furthermore, any additional increases in legal, accounting, insurance and certain other expenses that we may experience in the future could negatively impact our financial performance and have a material adverse effect on our results of operations and financial condition .

**Item 1B. *Unresolved Staff Comments***

None.

**Item 2. *Properties***

Our principal executive office, consisting of 4,201 square feet, is located at 150 California Street, Suite 600, San Francisco, CA 94111. Approximately one half of our office space has been subleased to a third party.

**Description of the Properties**

Our current oil and natural gas exploration, appraisal and development drilling activities are focused in two distinct project areas as follows:

**United States—Texas** (East Texas) and **California** (onshore San Joaquin basin)

**Australia**—onshore in two permit areas located in the South Perth basin.

*Texas*

*Madisonville Project, Madison County, East Texas*

We own and operate the interest in the Madisonville Project in Madison County, Texas. We own working interests in approximately 2,733 gross and net acres of leases in the Rodessa Formation interval. We also own a license as to 12.5 square miles of 3-D seismic data over the Madisonville Field.

The Madisonville Field, located approximately 100 miles north of Houston, has produced oil and natural gas from four different horizons above the Rodessa Formation for over 50 years. The field was discovered in 1945 with the Boring No. 1 well, which was drilled to the Rodessa Formation. The well blew out at an uncontrolled rate for three days during a test; however, due to hydrogen sulphide, carbon dioxide and nitrogen in the Rodessa Formation natural gas, the gas reserves were never developed. Over 125 wells were drilled in the Madisonville Field to shallower intervals above the Rodessa Formation. In 1994, nearly 50 years after the initial discovery, United Meridian Corporation (“UMC”) drilled the Magness Well as the first follow-up well into the Rodessa Formation to the Boring No. 1 well. The Magness Well had 139 feet of net pay but the natural gas was found to contain 28% impurities.

UMC previously production tested the Magness Well in 1994 through perforations in the lower most ten feet of the indicated Rodessa Formation pay interval. The well tested at a rate of 12 MMcf/d from this limited interval on a 22/64ths inch choke with flowing wellhead pressures increasing from 3,915 to 3,919 pounds per square inch. In 2001, we re-entered and recompleted the Magness Well. A total of 139 feet of interval has been perforated in the Rodessa Formation at approximately 12,000 feet of depth for this well. The well was production tested over a 12-day period in 2001 on various choke sizes with flowing rates ranging up to approximately 20.8 MMcf/d. We own a 100% working interest (75.1333% net revenue interest) in the Magness Well located in the surrounding production unit consisting of 684 gross and 629 net acres. The Magness Well commenced production in May of 2003 and stabilized at a rate of 18 MMcf/d of raw gas.

The first development well, the Fannin Well, was drilled and completed in 2004. We own a 100% working interest (69.8978% net revenue interest) in the Fannin Well located in the surrounding production unit consisting of 704 gross and net acres. A total of 146 feet of indicated pay was perforated in the well and a flow test of the well was completed in December 2004 from the Rodessa Formation at rates of up to 25.7 MMcf/d. We commenced production from the Fannin Well in early 2006. Also in 2006, we drilled the Mitchell and Wilson wells. We own a 100% working interest (70% net revenue interest) in the Mitchell and Wilson wells.





The Madisonville Field is a geologic feature encompassing approximately 5,800 acres at the Rodessa limestone at approximately 11,800 feet of depth. A 3-D seismic program shot in early 1998 confirmed the size of the structure and slightly increased its size over earlier interpretations. Our working interest covers the Rodessa Formation at approximately 11,800 feet of depth. In addition, we own a working interest in certain leases which cover depths below the Rodessa Formation.

Hydrogen sulfide, carbon dioxide and nitrogen combined comprise about 28% of the gas content. The untreated natural gas is delivered to the Madisonville Gas Treatment Plant where all the natural gas impurities are removed prior to delivery to the sales pipeline. The high concentrations of hydrogen sulfide and carbon dioxide result in higher capital and operating costs for our wells. For example, the hydrogen sulfide and carbon dioxide are corrosive to the wellbores. This means we have to utilize higher grade specification well tubing and casing which is more expensive than what we would utilize absent the impurities. In addition, we continuously treat the wellbores with chemicals designed to inhibit the corrosive effects of the impurities. We also maintain field personnel at or near the wellsites who monitor the wells on a twenty four hour basis and equip the wellsites with extensive safety equipment systems due to the toxic properties of the hydrogen sulfide and carbon dioxide.

#### *The Madisonville Gas Treatment Plant and Gathering Facilities*

In order to produce the proved gas reserves from the Rodessa Formation, we developed an onsite plan to treat and remove impurities from the Madisonville Project natural gas in order to meet pipeline-quality specifications. In June 2001, Redwood LP contracted with Hanover Compression Limited Partnership (“Hanover”) to fund, construct and operate a dedicated natural gas treatment plant with an initial designed capacity of 18 MMcf/d. In conjunction with the plant construction, Gateway installed field gathering lines and an approximately nine mile sales pipeline, with an estimated capacity of 70 MMcf/d, to transport the Madisonville gas to a major pipeline. These facilities were completed in April 2003 and production from the Magness Well commenced in May 2003.

In July 2005, Madisonville Gas Processing LP (“MGP”) purchased the natural gas treatment plant from Hanover and purchased the gathering pipelines upstream of the gas treatment plant from Gateway. In December 2008, we purchased the gas treatment plant and related gathering pipelines from MGP. The effective date of the acquisition was December 31, 2008 and the current owner of the Plant is GeoPetro’s wholly-owned, indirect subsidiary, Madisonville Midstream.

The existing Plant is capable of operating with a processing capacity of approximately 18 MMcf/d of inlet gas. Plans are to expand the Plant’s processing capacity to 30 MMcf/d.

Our natural gas deliveries to our gas treatment plant may be affected by third party demands for access to the plant. On August 9, 2006, the Railroad Commission of Texas issued an order requiring the Plant to ratably process, take, transport or purchase natural gas produced by Crimson into the Madisonville gas treatment plant. There is no guarantee that we will be able to maintain full access to the treatment capacity of the Madisonville Plant at all times because, for example, Crimson now has the right to have its natural gas treated at the plant, which may reduce the plant's ability to treat all of our natural gas, unless the plant's capacity is further expanded.

To date, Crimson has drilled and completed two wells to a depth of approximately 12,635 feet. Crimson has also drilled an injection well for disposal of waste products resulting from the treatment of their natural gas. Crimson has not delivered any natural gas to the treatment plant since August 2009.

#### *Other Interests in the Madisonville Project*

Our working interest in the Madisonville Project is subject to a net profits interest in favor of the third party that sold us our working interests in the Madisonville Project. The net profits interest is 12.5% (proportionately reduced to our interest) of the net operating profits until payout is achieved. After payout, the net profits interest increases to 30% (proportionately reduced to our interest). "Payout", for purposes of the net profits interest, is defined and achieved at such time as we have recouped from net operating cash flows our total net investment in the Madisonville Project plus a 33% cash on cash return.

#### *California*

##### *Lokern Project*

We have 100% working interests in 1,280 leased acres in the Lokern Project, located in the southern San Joaquin basin, near Bakersfield, California. The primary exploration objectives are the Monterey Shale, the Miocene Stevens formation and the Carneros member of the Temblor formation. The secondary objectives include the Miocene Reef Ridge and Pliocene Etchegoin sands. The Stevens formation is Upper Miocene age.

The Lokern Project is being developed in part as a result of positive results from the Machii-Ross Ackerman show well drilled in 1979 on acreage currently controlled by us. Based on log analysis, we believe this well had approximately 240 feet of potential net oil pay and an additional 150 feet of potential pay in the Stevens zone. The Machii-Ross Ackerman well was drilled to a depth of 15,078 feet by Machii-Ross Petroleum Company and was plugged and abandoned as a dry hole. We believe, based on our log analysis, that the well may have been a bypassed producer.

Subject to approval of drilling permits, we anticipate that a well will be drilled, either by us or through a farm-out arrangement with a third party, to a depth of 15,000 to 18,000 feet in 2015.

Based on our review of title information from public authorities and other publicly available sources, we believe that we have a 100% working interest in the Lokern Project. As is customary in the U.S. oil and gas industry, we will not conduct a thorough title review with respect to our interest in the Lokern Project until we have made a definitive decision to drill in a particular lease area.

### *Australia*

On June 20, 2007, the Company agreed to sell and transfer all of its remaining property interests in Australia to an unrelated party for cash consideration and a Petroleum Sales Royalty Payment equal to 25% of the future annual earnings before interest, taxes, depreciation and amortization from the property interests. Specifically, the agreement provides that the Company will be paid consideration for the sale and transfer of its property interests as follows:

initial cash  
consideration  
of \$175,000  
was received  
on November  
19, 2007;

a second cash  
payment of  
\$175,000 upon  
a successful  
flow test of  
petroleum  
from a well  
located on the  
property

interests. A successful flow test is defined for purposes of this agreement to be a test of at least 7 million standard cubic feet of natural gas for a continuous and uninterrupted 24 hour period (or an equivalent oil/condensate rate based on a conversion ratio of 6000 cubic feet of gas to a barrel of oil or condensate); and

a Petroleum Sales Royalty Payment equal to 25% of the future annual earnings before interest, taxes, depreciation and amortization from the property interests up to a total amount of \$2,200,000.

## **Proved Reserves Disclosures**

### *Internal Controls Over Reserves Estimates*

Our policies regarding internal controls over the recording of reserves estimates requires reserves to be in compliance with the SEC definitions and guidance and prepared in accordance with generally accepted petroleum engineering principles.

The Company engaged the independent petroleum engineering firm, MHA Petroleum Consultants LLC (“MHA”) to prepare the Company’s reserve estimates at December 31, 2013 and 2012. MHA is a Denver based group of multiple professional engineers and geologists providing a wide range of technical services to the petroleum industry. Within MHA, the technical persons primarily responsible for preparing the estimates set forth in the MHA reserves report incorporated herein are Ms. Leslie O’Connor and Mr. Dennis Holler. Ms. O’Connor has been practicing consulting petroleum engineering at MHA since 2006, and has over 30 years of practical experience in petroleum engineering, with over 17 years experience in the estimation and evaluation of reserves. Mr. Holler has been practicing consulting petroleum geology at MHA since 2001. Mr. Holler has over 38 years of practical experience in petroleum geology, with over 28 years experience in the estimation and evaluation of reserves. Both technical principals meet or exceed the education, training, and experience requirements set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers; both are proficient in judiciously applying industry standard practices to engineering and geosciences evaluations as well as applying SEC and other industry reserves definitions and guidelines. MHA evaluated properties representing 100% of our reserves, valued at the total estimated future net cash flows before income taxes, discounted at 10% (“PV-10”), for all periods presented below. Senior members of our management review the final reserve report to ensure the accuracy and completeness of all inputs into the report. MHA’s report to management, which summarizes the scope of work performed and its conclusions, has been included in this report as Exhibit 99.1.

*Proved Undeveloped (PUD) Reserves*

As of December 31, 2013, our PUDs totaled 9.1 Bcf of natural gas.

*PUD*

*Locations -*  
100% of our PUDs at year-end 2013 were associated with the Madisonville Field.

*Development*

*Costs -*  
Estimated future development costs relating to the development of PUDs are projected to be approximately \$5.5 million and \$4.3 million in 2014 and 2015 respectively.

*Drilling Plans*

- Our PUD development is scheduled in 2014 and 2015. Initial production from the PUD reserves is expected to begin in 2014.

***Proved Oil and Gas Reserves***

The 2013 and 2012 reserve estimates were prepared by MHA and are part of their reserve reports on our oil and natural gas properties. MHA's estimates were based on a review of geologic, economic, ownership and engineering data that we provided. In estimating the reserve quantities that are economically recoverable, MHA used simple arithmetic average of the natural gas price in effect on the first day of each month in 2013 and 2012. All of our proved reserves are attributable to our Madisonville Project in Madison County, Texas.

Our estimated total net proved reserves of oil and natural gas as of December 31, 2013 and 2012, and the present values of estimated future net revenues attributable to those reserves as of those dates, are presented in the following tables.

	<b>DECEMBER</b>	
	<b>31,</b>	
	<b>2013</b>	<b>2012</b>
	(MMcf)	(MMcf)
Proved developed producing	—	—
Proved developed non-producing	9,984	9,126
Proved undeveloped	9,054	8,663
Total	19,038	17,789

In accordance with SEC regulations, estimates of our proved reserves and future net revenues are made using sales prices which are held constant throughout the life of the properties, except to the extent a contract specifically provides for escalation. Estimated quantities of proved reserves and future net revenues are affected by oil and natural gas prices, which have fluctuated significantly in recent years.

See "Glossary of Oil and Natural Gas Terms"

***Standardized Measure of Discounted Future Net Cash Flows***

For purposes of the following disclosures, estimates were made of quantities of proved reserves and the periods during which they are expected to be produced. Future cash flows for the 2013 & 2012 estimates were computed by applying the simple arithmetic average of the natural gas price in effect on the first day of each month in the respective years to estimated annual future net production from proved gas reserves. The price assumptions used for natural gas are indicated below. Future development drilling and production costs were computed by applying year-end costs to be incurred in producing and further developing the proved reserves. Future income tax expenses were computed by applying, generally, year-end statutory tax rates (adjusted for permanent differences, tax credits and allowances) to the estimated net future pre-tax cash flows. The discount was computed by application of a 10% discount factor. The calculations assume the continuation of existing economic, operating and contractual conditions. However, such arbitrary assumptions have not proven to be the case in the past. Other assumptions of equal validity could give rise to substantially different results:

	<b>YEAR ENDED DECEMBER 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>	
Future cash inflows	\$64,680	\$44,045
Future production costs	(14,733)	(10,555)
Future development costs	(10,990)	(10,916)
Future income taxes	—	—
Future net cash flows	38,957	22,574
10% annual discount	(9,884 )	(6,426 )
Standardized measure of discounted future net cash flows	\$29,073	\$16,148

The standardized measure values shown in the aforementioned table are not intended to represent the current market value of the estimated proved oil and gas reserves owned by us.

***Pricing Assumptions***

SEC regulations require that the gas price used for the December 31, 2013 and 2012 MHA reserve reports is the simple arithmetic average of the natural gas price in effect on the first day of each month in 2013 and 2012 respectively. These prices are projected without inflation for the life of the wells included in the reserve reports. The pricing assumptions are listed below and represent the un-weighted average price for natural gas delivered based upon the Houston Ship Channel price, as adjusted, before any reductions for transportation and processing fees:



**AVERAGE PRICE**  
**2013 REPORT**  
**Gas (\$/MMBtu)**

\$ 3.31

**AVERAGE PRICE**  
**2012 REPORT**  
**Gas (\$/MMBtu)**

\$ 2.46

**Acreage and Productive Wells**

The following table sets forth our ownership interest in undeveloped acreage, developed acreage and productive wells in the areas indicated where we own a working interest as of December 31, 2013. Gross represents the total number of acres or wells in which we own a working interest. Net represents our proportionate working interest resulting from our ownership in gross acres or wells. Productive wells are wells in which we have a working interest and that are capable of producing natural gas or oil. Wells that are completed in more than one producing horizon are counted as one well.

Acreage Holdings	Undeveloped acreage		Developed acreage		Producing Wells		Non-Producing Wells	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	Acres	Acres	Acres	Acres				
Texas	706	706	2,027	2,027	3	3	1	1
California	1,280	1,280	—	—	—	—	—	—
Total	1,986	1,986	2,027	2,027	3	3	1	1

The following table sets forth as of December 31, 2013, the expiration periods of the gross and net undeveloped acreage:

Twelve months ended	United States	
	Gross	Net
December 31, 2014	1,986	1,986
December 31, 2015	—	—
December 31, 2016 and thereafter	—	—
	1,986	1,986



**Volumes, Prices and Production Costs**

Substantially all of our production is derived from our Madisonville Project in Madison County, Texas. The following table sets forth information with respect to our production volumes, average prices received and average production costs for the periods indicated:

	<b>YEAR ENDED DECEMBER 31, 2013 2012</b>	
Production:		
Natural gas (MMcf) (1)	—	161
Natural gas (MMcf/d) (1)		