GEOPETRO RESOURCES CO
Form 10-K
April 16, 2013
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2012

OR

o 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	94-3214487
(State of incorporation)	(IRS Employer Identification Number)
150 California Street, Suite 600 San Francisco, CA	94111
(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:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, No Par Value	NYSE MKT 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 o No x

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 o No x

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 x No o

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 x No o

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. o

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 o	Accelerated filer o
Non-accelerated filer o	Smaller Reporting Company x

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

The aggregate market value of the registrant's common stock held by non-affiliates was approximately $5,280,094 based on the closing sale price of $0.13 per share as reported by NYSE MKT on June 29, 2012.

The number of shares of the registrant's common stock outstanding on April 1, 2013 was 48,681,074.

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 oth 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, 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

TABLE OF CONTENTS

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.

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"). 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.

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

During the past two years, we conducted leasehold acquisition and exploration activities on our North American prospects. These projects currently encompass approximately 7,853 gross and net acres, consisting of mineral leases and exploration permits that give us the right to explore for, develop and produce oil and natural gas. Most 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. Presently, the Fannin and Magness wells are capable of production, while the Mitchell and Wilson wells are shut-in awaiting workovers. 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 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 unrisked 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 in Canada and the United States 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; renegotiation of contracts with governmental entities; exchange controls, and numerous other factors. Any one or more of such political or economic conditions could change in the United States or Canada 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

We own working interests in an oil and gas project located in Canada. In the exploration, drilling and development of this property, we will be required to comply with the environmental, conservation, tax and other laws and regulations in Canada.

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 properties in which we own an interest. Since our inception, we have realized only limited production of natural gas from the properties in which we own an interest. We also have working interests in various 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 6 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 April 16, 2013, our independent registered public accounting firm stated that our financial statements for the year ended December 31, 2012, were prepared assuming that we would continue as a going concern. We have incurred recuring losses that have resulted in an accumulated deficit attributable to common stockholders of approximately $49,700,000 as of December 31, 2012. Although we had approximately $59,000 of available cash at December 31, 2012, 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, 2012, we have gross capitalized costs totaling $65.1 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 revenues of only $351 thousand during the fiscal year ended December 31, 2012.

Since inception, our activities have been primarily related to acquiring and exploring leasehold interests in oil and natural gas properties in Texas, California, Alaska, Canada, Indonesia and Australia. 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, 2012 of $49.7 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.

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, 2012 we have capitalized costs of $65.1 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 and geologists and obtained through geophysical testing and geological analysis.

Reservoir engineering, geophysics and geology are not exact sciences and the results of studies and tests used to make such evaluations are sometimes inconclusive or subject to varying interpretations. As such, there is no certain way to know in advance whether any of our prospects will yield oil and natural gas in commercial quantities. Further, it is possible that we will participate in the drilling of more dry holes than productive wells or that all or substantially all of the wells drilled will be dry holes. The drilling of dry holes on prospects in which we have an interest could adversely affect their values and our decision to undertake further exploration and development drilling of such prospects. It is not certain or predictable whether, and no assurance can be made that, the wells drilled on the properties in which we have an interest will be productive or, if productive, that we will recover all or any part of our investment in the properties. In 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. Our natural gas revenue was $351,082 for the year ended December 31, 2012. Future revenue could decline from this level if our future drilling efforts are not successful. Furthermore, as of December 31, 2012 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:

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

(2)

income-seeking entities purchasing a predictable stream of 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 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, 2012 and our liquidity for the twelve months ended December 31, 2012. Our financial condition and performance could be further negatively impacted if these conditions continue to exist for a sustained period of time, or if there is further deterioration in financial markets and major economies. We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and abroad.

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;
- 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, 2012.

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 remedying 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, 2012.

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, 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 in Canada or the United States could change in manners that negatively affect our operations and prospects in those countries.

Our business activities in Canada and the United States 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, the Canadian or American 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 are a party 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 and David Creel, two members of our senior management team, have a combined experience of approximately 80 years in the oil and gas industry. There is no guarantee that we could attract or locate other individuals 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, 2012 our directors and officers beneficially own approximately 13% 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 2013 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 2013 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:

- farm-out our interest in proposed wells;
- sell a portion of our interest in prospects and use the sale proceeds to fund our participation for a lesser interest;
- forfeit our interest in wells that we propose to drill; and
- 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 April 1, 2013, there are 48,681,074 shares of our common stock outstanding, 5,370,027 shares of our Series B Preferred stock outstanding, 7,026,265 shares of our common stock are issuable upon exercise of warrants and 3,445,000 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 and we may expend money in Canada, where our operating costs will be denominated in local currencies. Fluctuations in exchange rates may increase our relative cost of operating in Canada, 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 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 2013, 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, and the NYSE MKT, 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.

Description of the Properties

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

- United States—Texas (East Texas), California (onshore San Joaquin basin) and Alaska (onshore Cook Inlet basin);
- Canada—Alberta (central Alberta 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 about 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 12,000 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. On December 31, 2008, we purchased the gas treatment plant and related gathering pipelines from MGP in exchange for the assumption of secured bank debt, payment of certain outstanding payables of MGP and shares of GeoPetro’s common stock. 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 secured bank debt we incurred as part of the Plant acquisition totaled $6.7 million and was in the form of a 3 year loan with the lender, Bank of Oklahoma (“BOK”). The loan agreement provided for minimum quarterly principal payments of $150,000 and supplemental principal amounts payable upon GeoPetro achieving certain cash flow thresholds. The Company pledged its Madisonville natural gas reserves as well as the Plant assets as collateral for the loan. GeoPetro and its wholly owned subsidiary Redwood LP were guarantors of the loan. This loan was paid in full on September 13, 2011.

The existing Plant continues to operate with a processing capacity of approximately 18 MMcf/d of inlet gas. Plans are currently under development 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 drilling permits, we expect 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 2013/2014.

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.

Alaska

The Cook Inlet Alaska Project

On February 26, 2010, we sold our entire 100% working interest in approximately 122,000 acres onshore in the Cook Inlet region of Alaska ("Alaskan Leases"). The position consisted of two separate target areas, the Point MacKenzie Prospect and the Trading Bay Prospect. The Point MacKenzie Prospect is located twelve miles northwest of Anchorage. The Trading Bay Prospect is located fifty miles west of Anchorage, across the Cook Inlet. The interests were purchased by Linc Energy (Alaska) Inc. ("Linc"). Linc is a wholly-owned subsidiary of Linc Energy Ltd., an Australian-based company publicly traded on the Australian Stock Exchange.

In exchange for our 100% working interest in our Alaskan Leases we received or will receive the following consideration:

- a cash payment of $1.0 million;
- a $4.0 million payment from the first 75% of the 8/8ths proceeds from any oil and gas production from the underlying leases;
- subsequent to our receipt of the $4.0 million payment specified above, we will thereafter receive an over-riding royalty interest of 10% of 8/8ths in and to the leases issued by the State of Alaska and the Alaska Mental Health Trust on conventional oil and gas production and coal bed methane production; and
- Linc has agreed to pay all of the costs of maintaining the Alaskan Leases through the end of the primary lease terms.

On May 2, 2011 Linc, the operator of the Alaskan Leases in the Cook Inlet region reported that drilling and testing on the LEA #1 well located in the Point MacKenzie Block of the Cook Inlet basin had been completed. Three sandstone targets were tested separately. Despite the fact that gas shows were encountered while drilling, the sandstone targets were too tight to produce commercial quantities of gas. Although the LEA#1 has not proved to be commercial, the operator intends to use information acquired while drilling the well to continue exploration in the Cook Inlet basin.

Preliminary log analysis and seismic data indicate the Point MacKenzie and Trading Bay Blocks may contain conventional accumulations of natural gas reserves in Tertiary sandstones. Structural anticlines and/or domes occur on the lease blocks and may contain large undrilled gas reservoirs. Sandstone units also pinch-out toward the margins of the basin and may have formed stratigraphic traps on the lease blocks. In the past, oil and gas exploration has focused on oil production and anticlinal gas traps, but stratigraphic accumulations have been largely unexplored in the Cook Inlet.

Additional potential on the Alaskan Leases may be realized from the development of coal bed methane reserves. The coals occur in seams which are commonly 20 feet thick and can be as thick as 70 feet. Accessible onshore areas have 200 to 300 feet of aggregate coal thickness shallower than 5,000 feet. Estimated gas content for these coals ranges from 80 to 250 standard cubic feet per ton. Testing for coal bed methane has been restricted to a very small number of bore holes and is almost completely unknown for most of the inlet.

Alberta

Swan Hills Project

The Swan Hills Project is located in the Central Alberta basin, Alberta, Canada. The primary exploration objective is the Swan Hills Formation at approximately 9,000 feet.

We, through our wholly-owned subsidiary, GeoPetro Canada, have reviewed 3-D seismic data over the prospect. Subject to drilling permits, we expect that a test well will be drilled, either by us or through a farm-out arrangement with a third party, in 2013. We have 100% of the working interest in approximately 3,840 gross and net leased acres.

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, 2012 and 2011. 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 Mr. John Arsenault and Mr. Dennis Holler. Mr. Arsenault has been practicing consulting petroleum engineering at MHA since 2006, and has over 25 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 37 years of practical experience in petroleum geology, with over 27 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, 2012, our PUDs totaled 8.7 Bcf of natural gas.

- PUD Locations - 100% of our PUDs at year-end 2012 were associated with the Madisonville Field.

- Development Costs - Estimated future development costs relating to the development of PUDs are projected to be approximately $5.4 million and $4.2 million in 2013 and 2014 respectively.

- Drilling Plans - Our PUD development is scheduled in 2013 and 2014. Initial production from the PUD reserves is expected to begin in 2013.

Proved Oil and Gas Reserves

The 2012 and 2011 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 2012 and 2011. 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, 2012 and 2011, and the present values of estimated future net revenues attributable to those reserves as of those dates, are presented in the following tables.

	DECEMBER 31,	
	2012 (MMcf)	2011 (MMcf)
Proved developed producing	—	2,453
Proved developed non-producing	9,126	7,327
Proved undeveloped	8,663	9,108
Total	17,789	18,888

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 2012 & 2011 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:

	YEAR ENDED DECEMBER 31, 2012	2011
	(in thousands)	
Future cash inflows	$44,045	$72,305
Future production costs	(10,555)	(16,512)
Future development costs	(10,916)	(10,916)
Future income taxes	—	—
Future net cash flows	22,574	44,877
10% annual discount	(6,426)	(12,258)
Standardized measure of discounted future net cash flows	$16,148	$32,619

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, 2012 and 2011 MHA reserve reports is the simple arithmetic average of the natural gas price in effect on the first day of each month in 2012 and 2011 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 2012 REPORT Gas ($/MMBtu)	AVERAGE PRICE 2011 REPORT Gas ($/MMBtu)
$ 2.46	$ 3.76

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, 2012. 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.

	Undeveloped acreage		Developed acreage		Producing Wells		Non-Producing Wells	
Acreage Holdings	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross	Net	Gross	Net
Canada	3,840	3,840	—	—	—	—	—	—
Texas	706	706	2,027	2,027	3	3	1	1
California	1,280	1,280	—	—	—	—	—	—
Total	5,826	5,826	2,027	2,027	3	3	1	1

The following table sets forth as of December 31, 2012, the expiration periods of the gross and net undeveloped acreage:

	Undeveloped Acreage			
	United States		Canada	
	Gross	Net	Gross	Net
Twelve months ended				
December 31, 2013	663	663	3,840	3,840
December 31, 2014	1,323	1,323	—	—
December 31, 2015 and thereafter	—	—	—	—
	1,986	1,986	3,840	3,840

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:

	YEAR ENDED DECEMBER 31,	
	2012	2011
Production:		
Natural gas (MMcf) (1)	161	292
Natural gas (MMcf/d) (1)	0.44	0.80
Average Sales Prices		
Natural gas ($per Mcf) (2)	$2.18	$3.35
Lease Operating Expense		
($per Mcf) (3)	$1.65	$0.98

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(1) Production volumes for 2012 and 2011 represent actual plant throughput.

(2) The sales price reflected for the years ended December 31, 2012 and 2011 represents the sales price realized before deducting treatment, gathering and transportation costs, and is based on plant throughput.

(3) Lease operating expense per Mcf is based on lease operating expense and sales volumes net to our interests in the Madisonville gas wells.

Business Risks and Other Special Considerations

Refer to “Risk Factors” in this report for a discussion of business risks and other special considerations.

Item 3. Legal Proceedings

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrants Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Common Stock

Market Information. Our common stock trades on NYSE MKT under the symbol “GPR”.

The range of high and low closing prices for our Common Stock for each quarterly period from January 1, 2011 through December 31, 2012 as reported by NYSE MKT:

	NYSE MKT	
	High	Low
2012		
Fourth Quarter	$0.11	$0.06
Third Quarter	$0.16	$0.07
Second Quarter	$0.21	$0.11
First Quarter	$0.27	$0.19
2011		
Fourth Quarter	$0.32	$0.22
Third Quarter	$0.40	$0.31
Second Quarter	$0.72	$0.35
First Quarter	$0.93	$0.39

On April 11, 2013, the closing sale price for the Common Stock as reported by the NYSE MKT was $0.08 per share.

Holders. On April 11, 2013, the number of holders of record of our common stock was 328.

Dividends. We have not paid or declared any cash dividends on our common stock in the past and do not intend to pay or declare any cash dividends in the foreseeable future. We currently intend to retain future earnings for the future operation and development of our business including exploration, development and acquisition activities. Any future dividends would be subordinate to the full cumulative dividends on all shares of our Series B Preferred Stock.

The holders of Series B preferred stock are entitled to receive ratably such cash dividends, as were declared from time to time by the board of directors out of funds legally available therefore and, when declared, dividends were paid at the rate of $0.06 per share per annum, paid on a calendar quarter basis. During 2012, we accrued $325,380 in dividends associated with the Series B preferred stock, of which $0 had been paid as of December 31, 2012.

Use of Proceeds

On our registration statement on Form S-1 (Reg. No. 333-135485) we registered up to 16,499,991 shares of our common stock, no par value per share, including 5,943,105 shares of common stock issuable upon exercise of warrants and options, for resale by selling shareholders. The registration statement was declared effective by the SEC in February 2007. The offering commenced in February 2007 and has not terminated. On our registration statement on Form S-1 (Reg. No. 333-146557) we registered up to 2,002,599 shares of outstanding common stock and the resale of up to 780,857 shares of common stock issuable upon exercise of warrants, for resale by selling shareholders. The registration statement was declared effective by the Securities and Exchange Commission in October 2007. The offering commenced in October 2007 and has not terminated. We will not receive any proceeds from the sale of our common stock by the selling shareholders under the registration statements; however, if all warrants and options to acquire our common stock being registered thereunder are exercised, we will realize cash proceeds of approximately $8,851,550, which we expect to use for general working capital purposes and the drilling of wells in our Texas, California, and Canada prospects.

If less than the $8,851,550 proceeds are realized from the exercise of such warrants and options, we anticipate the proceeds would be spent in the following order of priority:

1. Madisonville Project, Madison County, Texas — Approximately $6,095,000 may be expended in the Madisonville Field area as follows: $650,000 for the Mitchell well workover; $1,445,000 toward the fracture stimulation and hook up costs of the Wilson Well; and $4,000,000 for expansion of the gas treatment plant.
2. California — Approximately $200,000 to be utilized for land and permitting costs.
3. Canada — Approximately $150,000 to be utilized for permitting costs.

We do not know if, or how many, of the warrants or options will be exercised. This is our best estimate of our use of proceeds generated from the possible exercise of warrants or options based on the current state of our business operations, our current plans and current economic and industry conditions. Any changes in the projected use of proceeds will be made at the sole discretion of our board of directors.

Unregistered Sales of Securities

In March 2012, Stuart J. Doshi, President and CEO, advanced to the Company a loan in the amount of $100,000. In connection with the note, the Company issued 20,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In March 2012, we completed a unit sale through a private placement transaction to an individual accredited investor. Units were priced at $0.25 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $250,000, and represented the sale of 1,000,000 common shares and 500,000 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

In May 2012, Stuart J. Doshi, President and CEO, advanced to the Company two loans totaling $75,000. In connection with these notes, the Company issued 15,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In June 2012, Stuart J. Doshi, President and CEO, advanced to the Company four loans totaling $225,000. In connection with these notes, the Company issued 45,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In July 2012, Stuart J. Doshi, President and CEO, advanced to the Company two loans totaling $75,000. In connection with these notes, the Company issued 15,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In August 2012, the Company issued 45,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of four years.

In August 2012, the Company issued 225,000 shares of common stock to our independent directors. The shares were valued at $0.14 per share and the aggregate value of the shares issued was $31,500. We agreed to grant "piggyback" registration rights to the directors with respect to the shares of common stock.

In August 2012, the Company granted 675,000 stock options at an exercise price of $0.16 per share. These options will vest ratably over five years pursuant to the terms of the 2004 Stock Option and Appreciation Rights Plan.

In October 2012, the Company issued 72,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price ranging from $0.10 to $0.23 per share for a period of five years.

In November 2012, Stuart J. Doshi, President and CEO, advanced to the Company two loans totaling $60,000. In connection with these notes, the Company issued 12,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In November 2012, the Company issued 30,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In November 2012, we completed a unit sale through a private placement transaction to an individual accredited investor. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $10,000, and represented the sale of 100,000 common shares and 50,000 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

In December 2012, Stuart J. Doshi, President and CEO, advanced to the Company a loan for $30,000. In connection with this note, the Company issued 6,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In December 2012, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $100,000, and represented the sale of 1,000,000 common shares and 500,000 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

In January 2013, Stuart J. Doshi, President and CEO, advanced to the Company a loan for $5,000. In connection with this note, the Company issued 1,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In January 2013, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $132,500, and represented the sale of 1,325,000 common shares and 662,500 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

In January 2013, we agreed to rescind a unit subscription agreement. Units were originally priced at $0.25 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitled the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units originally sold was $250,000, and represented the sale of 1,000,000 common shares and 500,000 warrants. The Company is reacquiring the common shares and warrants in exchange for a non-interest bearing unsecured note for $250,000 which matures in July 2014.

In February 2013, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $122,500, and represented the sale of 1,225,000 common shares and 612,500 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

In March 2013, Stuart J. Doshi, President and CEO, advanced to the Company three loans totaling $85,000. In connection with this note, the Company issued 17,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In March 2013, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $50,000, and represented the sale of 500,000 common shares and 250,000 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

GeoPetro issued the aforementioned common shares and warrants in reliance on the exemption from registration provided for under Section 4(2) of the Securities Act of 1933, as amended (“ Securities Act ”), and Rule 506 of Regulation D thereunder. GeoPetro relied on the exemption from registration provided for under Section 4(2) of the Securities Act based in part on the representations made by the purchasers, including the representations with respect to each purchaser’s status as an accredited investor, as such term is defined in Rule 501(a) of the Securities Act, and each purchaser’s investment intent with respect to the securities purchased. In addition, the Securities, which were taken for investment purposes and not for resale, were subject to restrictions on transfer. We did not engage in any public advertising or general solicitation in connection with this transaction, and we provided the investors with disclosure of all aspects of our business, including providing the investor with our reports filed with the SEC and other financial, business and corporate information. Based on our investigation, we believed that the accredited investors obtained all information regarding the Company that they requested, received answers to all questions posed and otherwise understood the risks of accepting our Securities for investment purposes.

Item 6. Selected Consolidated Financial Data

Not Applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the "Selected Consolidated Financial Data" and the accompanying consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect our future plans, estimates, beliefs and expected performance. The forward-looking statements are dependent upon events, risks and uncertainties that may be outside our control. See "Cautionary Statement Concerning Forward-Looking Statements".

Business Overview

We are an oil and gas company in the business of exploring and developing oil and natural gas reserves on a worldwide basis. Since inception, we have conducted leasehold acquisition, exploration and drilling activities on our North American, Australian and Indonesian prospects. These projects currently encompass approximately 7,853 gross and net acres, consisting of mineral leases, production sharing contracts and exploration permits that give us the right to explore for, develop and produce oil and natural gas. Most 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. Excluding minor interest and dividend income, our only significant cash inflows until 2003 were the recovery of capital invested in projects through sale or other divestiture of interests in oil and gas prospects to industry partners.

Our objective is to increase shareholder value by profitably growing our reserves, production, revenue, and cash flow by focusing primarily on our projects in Texas, California, Canada and certain new venture opportunities.

Since 2003, substantially all of our revenue has been generated from natural gas sales derived from the Madisonville Field in East Texas under spot gas purchase contracts at market prices. Natural gas sales from the Madisonville Field are expected to account for substantially all of our revenues for 2013. We expect the majority of our capital expenditures in 2013 will be for the Madisonville Project. Considering our liquidity issues, we may have to raise capital or sell assets on less favorable terms than may otherwise be available in order to accomplish our goals.

	For The Years Ended December 31, 2012	2011
Consolidated Statement of Operations:		
Revenues	$351,082	$976,571
Plant operating expense	1,036,549	2,280,453
Lease operating expense	191,615	205,421
General and administrative	1,963,053	2,202,171
Depreciation and depletion expense	195,110	449,537
Impairment expense	620,656	750,133
Loss from operations	(3,655,901)	(4,911,144)
Gain on sale of equipment	—	4,069,640
Net loss	(3,935,302)	(1,472,434)
Net loss attributable to common shareholders	$(4,260,682)	$(1,907,073)

Revenue and Operating Trends in 2012

As discussed in the "Properties — Texas — Madisonville Project" section of this annual report, in order to produce the 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 2003, a third party completed the construction and installation of a natural gas treatment plant with a designed capacity of 18 MMcf/d and associated pipeline and gathering facilities.

On December 31, 2008, we purchased the gas treatment plant and related gathering pipeline from MGP in exchange for assumption of secured debt, payment of certain outstanding payables of MGP and shares of GeoPetro's common stock. The effective date of the acquisition was December 31, 2008 and the new owner of the Plant is GeoPetro's wholly-owned, indirect subsidiary, Madisonville Midstream. The plant operates with a design capacity of up to approximately 18 MMcf/d of inlet gas. Plans are currently under development for the plant capacity to be increased to 30 MMcf/d.

While there can be no assurance, our goal is to complete the expansion to the plant and increase the production rates from our wells which may result in higher net production and increased revenue in the latter half of 2013 and 2014 as compared to 2012 and prior periods. To accomplish the plant expansion we will need to raise capital in 2013. Due to our liquidity concerns, funds may not be available, or may not be available on favorable terms. If we are unable to raise the necessary capital, we may have to delay our plans for expansion or reduce the scope of our operations.

Industry Overview for the year ended December 31, 2012

Natural gas prices have historically been volatile. Price volatility during 2012 and 2011 relates to economic concerns and a resultant decline in demand for natural gas, an increase in production from shale gas, and a relatively mild winter in 2011/2012. These factors led to natural gas prices falling to 10-year lows in 2012. The Houston Ship Channel price, the index price prevailing in the locale of our Madisonville Project in Madison County, Texas, as quoted in Gas Daily as of December 31, 2012 was $3.35 per Mcf versus $2.74 per Mcf as of December 31, 2011. Fluctuations in the price for natural gas are closely associated with customer demand relative to the volumes produced and the level of inventory in underground storage.

Company Overview in 2012

Our net loss after taxes for the year ended December 31, 2012 was $4,260,682. From our inception, through mid-2003, we only received nominal revenues from our oil and natural gas activities, while incurring substantial acquisition and exploration costs and overhead expenses which have resulted in an accumulated deficit through December 31, 2012 of $49,729,613. Commencing in May 2003, we placed our Madisonville Project into production. Substantially all of our revenues for the year ended December 31, 2012 were derived from our Madisonville Project, from three producing wells, the Magness Well, the Fannin Well, and the Mitchell Well.

Comparison of Results of Operations for the year ended December 31, 2012 and 2011

Gross natural gas revenues for the twelve months ended December 31, 2012 were $351,082. During this 2012 period, the sales of natural gas from our wells amounted to 161,377 Mcf and our average natural gas price realized was $2.18 per Mcf. Gross natural gas revenues for the twelve months ended December 31, 2011 were $976,571. During this 2011 period, the sales of natural gas from our wells amounted to 291,797 Mcf and our average natural gas price realized was $3.35 per Mcf. Revenues decreased for the twelve months ended December 30, 2012 as compared to the prior year period mainly due to lower production volumes and lower natural gas prices. The 44.7% lower production volumes for the twelve months ended December 31, 2012 as compared to the same period of 2011 was due primarily to the temporary shut-in of the Madisonville Field in 2012 as a result of low natural gas prices.

Plant operating expenses for the twelve months ended December 31, 2012 were $1,036,549 as compared to $2,280,453 for the twelve months ended December 31, 2011. The decrease in plant operating expenses of $1,243,904 or 54.6% was primarily attributable to the suspension of plant operations as a result of the temporary shut-in of the Madisonville Field. Since the Company planned for an extended shut down, it was able to significantly reduce expenses. When operations resume at the plant, expenses will increase from current levels.

Lease operating expenses for the twelve months ended December 31, 2012 were $191,615. Our average lifting cost for this 2012 period was $1.19 per Mcf. Lease operating expenses for the twelve months ended December 31, 2011 were $205,421. Our average lifting cost for this 2011 period was $0.70 per Mcf. Despite overall lease operating expenses being lower in 2012, the average lifting cost per Mcf was higher during the period, due to fixed costs associated with field personnel, insurance costs, and ad valorem property taxes applicable to the wells, on a lower base of production volume.

General and administrative expenses (“G&A”) for the twelve months ended December 31, 2012 were $1,963,053 as compared to $2,202,171 for the twelve months ended December 31, 2011. The decrease in G&A of $239,118 or 10.9% was primarily attributable to reduced expenses for investor relations, professional fees and salaries due to a reduction in the number of employees.

Depreciation, depletion and amortization expense ("DD&A") for the twelve months ended December 31, 2012 was $195,110 as compared to $449,537 for the twelve months ended December 31, 2011. These amounts primarily represent depletion of the oil and gas properties. The 56.6% decrease was primarily due to the temporary shut in of the Madisonville Field.

Impairment expense for the twelve months ended December 31, 2012 was $620,656 as compared to $750,133 for the twelve months ended December 31, 2011. The 2012 impairment was primarily a result of terminated negotiations with the Indonesian government for an extension of the Bengara II Production Sharing Contract. The 2011 impairment write-down was due to the decision to terminate CG Xploration and wind down operations as no immediate opportunity to acquire an attractive new project in Indonesia existed.

During the twelve months ended December 31, 2011, a gain on the sale of equipment of $4,069,640 was realized relating to the sale of certain idle and non-income producing equipment at the Madisonville Plant. There was no comparable sale of equipment during the twelve months ended December 31, 2012.

Interest expense for the twelve months ended December 31, 2012 was $295,620 as compared to $634,576 for the twelve months ended December 31, 2011. The decrease in interest expense was primarily attributable to the retirement of the Bank of Oklahoma debt in September 2011.

Net loss before taxes for the twelve months ended December 31, 2012 was $3,925,638 as compared to $1,471,634 for the twelve months ended December 31, 2011. The increase in net loss during the twelve months ended December 31, 2012 was primarily due to the fact that we recorded a gain on the sale of certain idle and non-income producing equipment in 2011.

Recent Developments

In March 2012, Stuart J. Doshi, President and CEO, advanced to the Company a loan in the amount of $100,000. The note bears interest at 10% per annum and is payable on demand. In connection with the note, the Company issued 20,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In March 2012, we completed a unit sale through a private placement transaction to an individual accredited investor. Units were priced at $0.25 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $250,000, and represented the sale of 1,000,000 common shares and 500,000 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

In April 2012, the Company's wholly-owned subsidiary, Redwood Energy Production, L.P., elected to temporarily shut-in its natural gas production at the Madisonville Field, Madison County, Texas in light of currently depressed natural gas prices caused by the oversupply of natural gas and the abnormally warm winter weather which has reduced the demand for natural gas. We plan to resume our natural gas production from the Madisonville Field when natural gas prices recover from the recently depressed levels, thus providing a better economic return. We will monitor market conditions and bring our natural gas production back on stream as market conditions warrant.

In April 2012, Nick DeMare indicated that he would not stand for reelection at that year's Annual Meeting. Mr. DeMare did not reference any disagreement with the Company on any matter. Mr. DeMare indicated that he needed to resign in order to devote all of his attention to managing his own company and his other business interests.

In April 2012, in accordance with the provisions of the Company's Bylaws, the Board of Directors unanimously adopted a resolution to reduce the size of the Board of Directors from 6 to 5 directors, effective upon the expiration of the current directors' term of office.

In May 2012, the Company extended the maturities of five promissory notes totaling $1,150,000 to January 2014 and two promissory notes totaling $365,000 to May 2014. In connection with these extensions, the Company extended 151,500 warrants to purchase our common stock associated with the notes for an additional year and reduced the exercise price to purchase the common shares from $1.00 to $0.50 per share.

In May 2012, Stuart J. Doshi, President and CEO, advanced to the Company two loans totaling $75,000. The notes bear interest at 10% per annum and are payable on demand. In connection with these notes, the Company issued 15,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In June 2012, Stuart J. Doshi, President and CEO, advanced to the Company four loans totaling $225,000. The notes bear interest at 10% per annum and are payable on demand. In connection with these notes, the Company issued 45,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In June 2012, the Company's wholly owned subsidiary, GeoPetro Canada Ltd., acquired the remaining two-thirds (2/3) working interest in the Swan Hills Project, Central Alberta, Canada in exchange for an overriding royalty interest. Following the acquisition, the Company now owns 100% of the working interest in the Project.

On June 28, 2012, the Company received notice from NYSE MKT LLC (the "Exchange") indicating that the Company is not in compliance with one of the Exchange's continued listing standards. Specifically, the Exchange has notified the Company that it is not in compliance with Section 1003(a)(iv) of the Exchange's Company Guide in that the Exchange believes that the Company has sustained losses which are so substantial in relation to its overall operations or its existing financial resources, or its financial condition has become so impaired that it appears questionable, in the opinion of the Exchange, as to whether the Company will be able to continue operations and/or meet its obligations as they mature. In order to maintain the listing of the Company's common stock on the Exchange, the Company was required to submit a plan to the Exchange by July 30, 2012, addressing how the Company intended to regain compliance with Section 1003(a)(iv) by September 28, 2012 (the "Plan Period"). On July 30, 2012, the Company filed a plan with the Exchange as required. On August 27, 2012, the Exchange notified the Company that it had accepted the Company's plan of compliance and granted the Company an extension, until September 28, 2012, to regain compliance with the continued listing standards. On October 9, 2012, the Exchange notified the Company that the Exchange had determined that, in accordance with Section 1009 of the Company Guide, the Company had made a reasonable demonstration of its ability to regain compliance with Section 1003(a)(iv) of the Company Guide by the end of the revised plan period, which is now determined by the Exchange to be December 31, 2012. As a result, the Exchange is continuing the Company's listing pursuant to this extension. The Company will be subject to periodic reviews by the Exchange during the extension period covered by the plan. Failure to make progress consistent with the plan or to regain compliance with continued listing standards by the end of the extension period could result in the Company being delisted from the Exchange.

In July 2012, Stuart J. Doshi, President and CEO, advanced to the Company two loans totaling $75,000. The notes bear interest at 10% per annum and are payable on demand. In connection with these notes, the Company issued 15,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In August 2012, the Company issued 45,000 warrants to purchase our common stock in exchange for certain consulting services, valued at $2,986. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of four years.

In August 2012, the Company issued 225,000 shares of common stock to our independent directors. The shares were valued at $0.14 per share and the aggregate value of the shares issued was $31,500. We agreed to grant "piggyback" registration rights to the directors with respect to the shares of common stock.

In August 2012, the Company granted 675,000 stock options at an exercise price of $0.16 per share. These options will vest ratably over five years pursuant to the terms of the 2004 Stock Option and Appreciation Rights Plan.

The Company has been notified that the operator of the Bengara II Production Sharing Contract ("PSC") has terminated negotiations with the Indonesian government for an extension of the PSC's terms. The PSC shall now be relinquished and allowed to expire in accordance with its terms. As a result, the Company has recorded an impairment charge of $587,040 to its oil and gas properties.

In October 2012, the Company issued 72,000 warrants to purchase our common stock in exchange for certain consulting services, valued at $5,887. Each warrant entitles the holder to acquire one common share at a price ranging from $0.10 to $0.23 per share for a period of five years.

In November 2012, Hein & Associates LLP notified us that they declined to stand for re-election as the Company's independent registered public accounting firm.

In November 2012, Stuart J. Doshi, President and CEO, advanced to the Company two loans totaling $60,000. The notes bear interest at 10% per annum and are payable on demand. In connection with these notes, the Company issued 12,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In November 2012, the Company issued 30,000 warrants to purchase our common stock in exchange for certain consulting services, valued at $1,014. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

On November 21, 2012, the Company received a notice from the Exchange stating that the Company is not in compliance with Section 1003(f)(v) of the Exchange's Company Guide. Specifically, the Exchange Staff has determined that the Company's securities have been selling for a low price per share for a substantial period of time and, pursuant to Section 1003(f)(v) of the Company guide, the Company's continued listing is predicated on it effecting a reverse stock split of its Common Stock no later than May 21, 2013.

In November 2012, we completed a unit sale through a private placement transaction to an individual accredited investor. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $10,000, and represented the sale of 100,000 common shares and 50,000 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

In December 2012, Stuart J. Doshi, President and CEO, advanced to the Company a loan for $30,000. The note bears interest at 10% per annum and is payable on demand. In connection with this note, the Company issued 6,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In December 2012, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $100,000, and represented the sale of 1,000,000 common shares and 500,000 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

In January 2013, the Company engaged Burr Pilger Mayer, Inc. as its independent registered public accounting firm to audit the Company's financial statements for the fiscal year ended December 31, 2012.

In January 2013, Stuart J. Doshi, President and CEO, advanced to the Company a loan for $5,000. The note bears interest at 10% per annum and is payable on demand. In connection with this note, the Company issued 1,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In January 2013, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $132,500, and represented the sale of 1,325,000 common shares and 662,500 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

In January 2013, we agreed to rescind a unit subscription agreement. Units were originally priced at $0.25 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitled the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units originally sold was $250,000, and represented the sale of 1,000,000 common shares and 500,000 warrants. The Company is reacquiring the common shares and warrants in exchange for a non-interest bearing unsecured note for $250,000 which matures in July 2014.

In February 2013, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $122,500, and represented the sale of 1,225,000 common shares and 612,500 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

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”). 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.

In March 2013, Stuart J. Doshi, President and CEO, advanced to the Company three loans totaling $85,000. The notes bear interest at 10% per annum and are payable on demand. In connection with this note, the Company issued 17,000 warrants to purchase our common stock. Each warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years.

In March 2013, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $50,000, and represented the sale of 500,000 common shares and 250,000 warrants. We agreed to grant "piggyback" registration rights to the investor with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investor acquired in the transaction.

On April 4, 2013, the Company entered into an amendment (the “ Amendment ”) to the Agreement and Plan of Merger (the “ Merger Agreement ”), with MCW Energy Group Limited, an Ontario corporation (“ Parent ”), and MCW CA SUB, a California corporation and a wholly-owned subsidiary of Parent (“ Merger Sub ”) dated February 28, 2013. 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 Parent.

On April 10, 2013, the Company received notice from the Exchange indicating that after a review of the Plan, and the request by the Company to extend the Plan Period until July 31, 2013, the Exchange determined that the Company has not made sufficient progress consistent with the Plan in order to regain compliance with Section 1003(a)(iv) of the Company Guide by July 31, 2013 and that its securities are, therefore, subject to being delisted from the Exchange. In the April 10, 2013 notice, the Exchange also informed the Company that, in accordance with Sections 1203 and 1009(d) of the Company Guide, the Company has a right to appeal the Exchange’s determination by requesting an oral hearing or a hearing based on a written submission before the Exchange’s Listing Qualifications Panel (the “Panel”). The Company intends to appeal the Exchange’s determination by requesting an oral hearing before the Panel, which request will stay the delisting determination until at least such time as the Panel renders a determination following the hearing. The Company anticipates that the hearing will take place in approximately 6 to 8 weeks. The Company is undertaking steps to address the deficiencies raised by the Exchange. However, there can be no assurance that the Company will be successful in its appeal and that the Company’s request for continued listing will be granted.

Liquidity and Capital Resources

We had a working capital deficit of $4,200,568 at December 31, 2012 versus $2,059,100 at December 31, 2011. Our working capital deficit increased during the year ended December 31, 2012 primarily due to losses incurred in connection with natural gas operations.

Our cash balance at December 31, 2012 of $59,432 compared to a cash balance of $916,741 at December 31, 2011. The change in our cash balance is summarized as follows:

Cash balance at December 31, 2011	$916,741
Sources of cash:	
Cash provided by investing activities	523,786
Cash provided by financing activities	925,000
Total sources of cash including cash on hand	2,365,527
Uses of cash:	
Cash used by operating activities	(2,000,278)
Cash used in investing activities	(230,817)
Cash used in financing activities	(75,000)
Total uses of cash	(2,306,095)

Cash balance at December 31, 2012	$59,432

Net cash used in operating activities of $2,000,278 and $4,403,330 for the years ended December 31, 2012 and 2011 respectively are attributable to our net loss adjusted for non-cash charges as presented in the consolidated statements of cash flows and changes in working capital as discussed above.

We have historically financed our business activities through December 31, 2012 principally through issuances of preferred stock, issuances of common shares, promissory notes, and the exercise of common share purchase warrants in private placements. These financings are summarized as follows:

	For the Years Ended December 31, 2012	2011
Proceeds from sale of common shares and warrant exercises, net	$360,000	$1,479,208
Proceeds from promissory notes	—	1,000,000
Repayments of promissory notes	(75,000)	(5,947,847)
Proceeds from related party notes	565,000	125,000
Repayment of related party note	—	(125,000)
Payment of loan fee	—	(27,000)
Net cash provided by (used in) financing activities	$850,000	$(3,495,639)

In March 2012, we completed a unit sale through a private placement transaction to an individual accredited investor. Units were priced at $0.25 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $250,000, and represented the sale of 1,000,000 common shares and 500,000 warrants. In November and December 2012, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.10 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.50 for a period of three years. The total aggregate purchase price for the units sold was $110,000, and represented the sale of 1,100,000 common shares and 550,000 warrants.

During 2012, Stuart J. Doshi, President and CEO, advanced to us twelve loans in the amount of $565,000. The notes accrue interest at 10% annually and are payable on demand.

In 2012 we paid $75,000 in repayment of promissory notes.

In February 2011, Stuart J. Doshi, President and CEO, advanced to us a loan in the amount of $125,000. The note accrued interest at 8% annually and was payable on demand.

In March 2011, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.45 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $0.75 for a period of three years. The total aggregate purchase price for the units sold was $922,648, and represented the sale of 2,050,328 common shares and 1,025,164 warrants. In June 2011, we completed a unit sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at $0.55 per unit, and each unit consisted of one share of no par value common stock, and a one-half common share purchase warrant. Each one whole warrant entitles the holder to acquire one common share at a price of $1.00 for a period of three years. The total aggregate purchase price for the units sold was $556,560, and represented the sale of 1,011,928 common shares and 505,965 warrants.

In June and July 2011, pursuant to the Fifth Amendment of the Amended and Restated Term Loan Agreement with BOK, the Company took additional advances totaling $1,000,000.

In 2011 we paid $6,099,847 in repayments of promissory notes, the repayment of a related party note and loan fees.

The net proceeds of our equity and note financings coupled with net cash provided by investing activities of $292,969 and $7,867,847 in 2012 and 2011, resulting primarily from the sale of certain mineral rights in 2012 and the sale of certain idle and non-income producing equipment in 2011, were primarily used to fund operating activities and invested in oil and natural gas properties and our gas processing plant totaling $244,705, and $1,382,153 for the years ended December 31, 2012 and 2011, respectively.

Our current cash and cash equivalents and anticipated cash flow from operations may not be sufficient to meet our working capital, capital expenditures and growth strategy requirements for the foreseeable future. See “Outlook for 2013/2014 Capital” for a description of our expected capital expenditures for 2013/2014. If we are unable to generate revenues necessary to finance our operations over the long-term, we may have to seek additional capital through the sale of our equity or borrowing. As noted in “Recent Developments,” we periodically borrow funds pursuant to promissory notes to finance our activities.

As discussed in the “Outlook for 2013/2014 Capital”, we are forecasting capital expenditures of $6.4 million during 2013. We will need to obtain adequate sources of cash to fund our anticipated capital expenditures through the end of 2013, to fund ongoing operations and to follow through with plans for continued investments in oil and gas properties. Our success, in part, depends on our ability to generate additional financing and farm-out certain of our projects. Additionally, as a result of our liquidity concerns, we may have difficulty raising sufficient funds to meet our projected funding requirements. See Item 1A.- “Risk Factors — Risks Related to Our Business”.

Since our inception, we have participated as a working interest owner in the acquisition of undeveloped leases, seismic options, lease options and foreign concessions and have participated in seismic surveys and the drilling of test wells on our undeveloped properties. Further leasehold acquisitions, drilling and seismic operations are planned for 2013 and future periods. In addition, exploratory and development drilling is scheduled during 2013 and future periods on our undeveloped properties. It is anticipated that these exploration activities together with others that may be entered into 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:

- farm-out our interest in proposed wells;
- sell a portion of our interest in prospects and use the sale proceeds to fund our participation for a lesser interest;
- reduce general and administrative expenses; and/or
- forfeit our interest in wells that are proposed to be drilled.

Outlook for 2013/2014 Capital

Depending on capital availability, we are forecasting capital spending of up to approximately $6,445,000 during the year 2013, allocated as follows:

1. Madisonville Project, Madison County, Texas — Approximately $6,095,000 may be expended in the Madisonville Field area as follows: $650,000 for the Mitchell well workover; $1,445,000 toward the fracture stimulation and hook up costs of the Wilson Well; and $4,000,000 for expansion of the gas treatment plant.
2. California— Approximately $200,000 to be utilized for land and permitting costs.
3. Canada — Approximately $150,000 to be utilized for permitting costs.

We may, in our discretion, decide to allocate resources towards other projects in addition to or in lieu of, those listed above should other opportunities arise and as circumstances warrant. We currently do not have sufficient working capital to fund the capital expenditures listed above. We may, in our discretion, fund the foregoing planned expenditures from operating cash flows, asset sales, potential debt and equity issuances and/or a combination of all four. The Madisonville Project forecasted capital expenditures will play an important part in our ability to achieve our 2013 cash flow projections. See “Liquidity and Capital Resources.”

We expect commodity prices to be volatile, reflecting the current supply and demand fundamentals for North American natural gas and world crude oil. Political and economic events around the world, which are difficult to predict, will continue to influence both oil and gas prices.

Significant price changes for oil and gas often lead to changes in the levels of drilling activity which in turn lead to changes in costs to explore, develop and acquire oil and gas reserves. Significant change in costs could affect the returns on our capital expenditures.

Income Taxes

As of December 31, 2012, GeoPetro had net operating loss (NOL) carryforwards of approximately $39,500,000 for federal income tax purposes which begin to expire in 2017. If the Company were to experience a change in ownership under Section 382, the Company may be limited in its ability to fully utilize its net operating losses.

However, in accordance with ASC 718 (formerly SFAS 123(R)), a deferred tax asset has not been recognized for the portion of the net operating loss carryforwards that is attributable to excess tax deductions associated with the exercise of stock options which do not reduce income taxes payable. Accordingly, approximately $3,536,000 of GeoPetro’s federal NOL has not been benefited for financial statement purposes as it relates to excess tax deductions that have not reduced income taxes payable. The benefit of these excess tax deductions will not be recognized for financial statement purposes until the related deductions reduce income taxes payable.

The Company also has approximately $12,430,000 of California net operating losses and approximately $670,000 of Alaska net operating losses which begin to expire in 2012 and 2026, respectively. In accordance with ASC 718, a portion of the state NOLs has similarly not been benefited for financial statement purposes as it relates to excess tax deductions which have not resulted in the reduction of income taxes payable. The benefit of such excess tax deductions will not be recognized for financial statement purposes until the related deductions reduce state income taxes payable.

In addition, the Company has approximately $318,264 of carryforward credits in Texas, a portion of which may be utilized each year against Texas Margin Tax liability through 2027.

A significant change in our ownership may limit our ability to use these NOL carryforwards. ASC 740, Accounting for Income Taxes (formerly Statement of Financial Accounting Standards No. 109), requires that the tax benefit of such net operating loss be recorded as an asset. At December 31, 2012, we had net deferred tax assets of approximately $17,615,000 related to the NOL and other temporary differences. We have recorded a full valuation allowance of $17,615,000 at December 31, 2012 due to uncertainties surrounding the realizability of the deferred tax asset.

Off Balance Sheet Arrangements

From time to time, we may enter into off-balance sheet arrangements and transactions that can give rise to off-balance sheet obligations. As of December 31, 2012, our off-balance sheet arrangements and transactions include operating lease agreements and gas transportation commitments. We do not believe that these arrangements are reasonably likely to materially affect our liquidity or availability of, or requirements for, capital resources.

Financial Instruments

We currently have no natural gas price financial instruments or hedges in place. Similarly, we have no financial derivatives. Our natural gas marketing contracts use “spot” market prices. Given the uncertainty of the timing and volumes of our natural gas production this year, we do not currently plan to enter into any long term fixed-price natural gas contracts, swap or hedge positions, other gas financial instruments or financial derivatives in 2013.

Impact of Inflation & Changing Prices

As the following table illustrates, average sales prices of natural gas have changed in the past two years. This has led to changes in revenues and earnings from operations:

	For the Years Ended December 31,	
	2012	2011
Average Sales Prices per Mcf	$2.18	$3.35
Net Production Volume Mcf	161,377	291,797
Revenues	$351,082	$976,571
Loss from Operations (1)	$(3,891,872)	$(4,911,944)

(1) Loss from operations includes $620,656 and $750,133 in impairment expense in 2012 and 2011, respectively.

We are highly dependent upon natural gas pricing. A material decrease in current and projected natural gas prices could impair our ability to raise additional capital on acceptable terms. Likewise, a material decrease in current and projected natural gas prices could also impact our revenues and cash flows. This could impact our ability to fund future activities.

Changing prices have had a significant impact on the costs of drilling and completing wells, particularly in the Madisonville Field area where we are currently the most active. The estimated cost of drilling and completing a Rodessa formation well at approximately 12,300 feet of depth has increased from $3.0 million in 2001 to $4.2 million in 2012 due to higher costs associated with tubular goods, well equipment, and day rates for drilling contracts, among other factors. These higher costs have impacted and will continue to impact our income from operations in the form of higher depletion expense.

Critical Accounting Estimates

Our consolidated financial statements have been prepared by management in accordance with U.S. GAAP.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Management believes the most critical accounting policies that may have an impact on our financial results relate to the accounting for oil and gas properties. Amortization, abandonment costs and full cost ceiling limitation write-downs are all based on numerous estimates, many of which are beyond management’s control. Reserves valuation is central to much of the accounting for an oil and gas company as described below. Significant accounting policies are contained in Note 3 to the consolidated financial statements. A summary of unaudited supplementary oil and gas reserve information is contained in Note 12 to the consolidated financial statements.

The following discusses the accounting estimates that are critical in determining the reported financial results:

Oil and Gas Properties — We follow the full cost method of accounting for oil and gas producing activities as prescribed by U.S. GAAP and, accordingly, capitalize all costs incurred in the acquisition, exploration, and development drilling of proved oil and gas properties, including the costs of abandoned properties, dry holes, geophysical costs, and lease rentals. All general corporate costs are expensed as incurred. In general, sales or other dispositions of oil and gas properties are accounted for as adjustments to capitalized costs, with no gain or loss recorded. Amortization of proved oil and gas properties is computed on the units of production method based on all proved reserves on a country by country basis. Unproved oil and gas properties are assessed for impairment either individually or on an aggregate basis. The net capitalized costs of proved oil and gas properties (full cost ceiling limitation) are not to exceed their related estimated future net revenues discounted at 10%, and the lower of cost or estimated fair value of unproved properties, net of tax considerations.

Reserves — We engage independent petroleum engineering consultants to evaluate our reserves. Reserves, future production profiles, and net revenues are estimated by independent professional reservoir engineering firms. While we engage qualified reservoir engineering firms, their estimates are inherently uncertain, involve numerous assumptions that may not be realized, and predict asset values that may not be indicative of the true market value of the assets evaluated. As a result of the inherent uncertainties and changing technical and economic assumptions, reserve estimates are subject to revisions that can materially impact our results.

Stock Based Compensation — The Company has a stock-based compensation plan that allows employees to purchase common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options were issued. Options granted under the plan are generally fully exercisable within five years and expire five to ten years after the grant date. We measure and record stock-based awards to directors, employees and consultants based on the grant-date fair value, determined using the Black-Scholes option pricing model with assumptions for: risk free interest rates, expected dividend yield, expected life of the option, and the expected volatility. We record the compensation expense ratably over the requisite service period defined in the award. The Company recorded $422,999 and $407,311 of stock-based employee compensation for the twelve months ended December 31, 2012 and 2011, respectively.

Risks and Uncertainties

There are a number of risks that face participants in the U.S. and international oil and natural gas industry, including a number of risks that face us in particular. Accordingly, there are risks involved in an ownership of our securities. See "Risk Factors" for a description of the principal risks faced by us.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks arising from fluctuating prices of crude oil, natural gas and interest rates as discussed below.

Commodity Risk. Our major commodity price risk exposure is to the prices received for our natural gas production. Realized commodity prices received for our production are the spot prices applicable to natural gas in the East Texas region. Prices received for natural gas are volatile and unpredictable and are beyond our control.

Currency Translation Risk. Because our revenues and expenses are primarily in U.S. dollars, we have little exposure to currency translation risk, and, therefore, we have no plans in the foreseeable future to implement hedges or financial instruments to manage international currency changes.

Hedging. We did not enter into any hedging transactions during the years ended December 31, 2011 or 2012.

Item 8. Financial Statements and Supplementary Data

The reports of our independent registered public accounting firm and our consolidated financial statements and supplemental information required to be filed under Item 8 of Form 10-K are presented beginning on Page F-1 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our President, Chief Executive Officer and Chairman and our Vice-President of Finance, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2012. Based on this evaluation, we have concluded that, as of December 31, 2012, our disclosure controls and procedures were effective, in that they ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to our management, including our President and Chief Executive Officer and Vice President of Finance, as appropriate to allow timely decisions regarding required disclosure.

Internal control over financial reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have included a report of management's assessment of the design and effectiveness of our internal controls as part of this annual report on Form 10-K for the fiscal year ended December 31, 2012. This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the SEC that permit the company to provide only management's report in this annual report. Management's report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section.

No changes to our internal control over financial reporting occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

Information is provided on the following pages about the directors, including their principal occupations for the past five years, certain other directorships, age and length of service as a director of GeoPetro. Membership on Board committees, attendance at Board and committee meetings and ownership of GeoPetro stock are provided in separate sections following the biographical information on the directors.

Name	Age	Position with GeoPetro (1)
Stuart J. Doshi(2)	67	Director, Chairman, President and Chief Executive Officer
David V. Creel(2)	73	Director and Vice President of Exploration
Thomas D. Cunningham(3)(4)	64	Director
David G. Anderson(3)(4)	60	Director
Christopher T. Czuppon(3)(4)	36	Director

Notes:

(1) Each director is elected or appointed to hold office until the next annual meeting of shareholders or until their successor is duly elected or appointed, unless their office is earlier vacated. Our bylaws currently authorize a minimum of four and a maximum of seven directors to serve on the Board of Directors and, by resolution of the Board of Directors, the current number of directors has been set at five.

(2) Executive Officer.

(3) Member of the Audit Committee.

(4) Independent, in accordance with the rules of the NYSE MKT.

Stuart J. Doshi. Mr. Doshi, 67, has been actively engaged in the oil and gas business for the past 43 years. Mr. Doshi began his oil and gas career with Natomas Company in 1970. He held various positions of increasing responsibility in planning, corporate development and financial management with Natomas. Mr. Doshi's activities covered international oil and gas exploration and production, domestic oil and gas exploration and production, geothermal energy production, coal production and petroleum trading and marketing companies. After leaving Natomas in 1985, Mr. Doshi served as a Senior Vice President of Energy Sources Group until 1988. Mr. Doshi then served as Vice President of Pan Pacific Petroleum, Inc. from 1988 to 1991. Immediately prior to forming GeoPetro, Mr. Doshi was the Managing Director of Sierra Overseas Corporation. Mr. Doshi founded GeoPetro in 1994 and has served as a director and our President and Chief Executive Officer since our inception and as Chairman of the Board since March 1998. Mr. Doshi is a graduate of the University of San Francisco with a Bachelor's Degree in Finance and the University of California, Santa Barbara with a Master's Degree in Economics.

Mr. Doshi is our longest-serving director, and he brings to the Board a broad array of institutional knowledge and a historical perspective. He has served as our Chairman since 1998. He possesses the critical historical and institutional knowledge of the Company's projects and the complex multi-jurisdictional contractual arrangements governing them. We believe any discussions concerning the strategic direction of our Company should be conducted with this knowledge, insight and experience. The Board of Directors believes that having Mr. Doshi serve as the Chairman of the Board of Directors is a benefit to the overall success and growth of the Company. Since he manages the day-to-day operations, he has a unique perspective on the Company's technical and financial strengths and is best positioned to chair board meetings where key business issues and corporate strategies are discussed on a routine basis. As indicated above, Mr. Doshi has been involved in the oil and gas industry virtually all his professional life and has developed a wide network of personal and business relationships within the oil and gas industry. His strong financial background combined with his many years of domestic and international operational experience throughout changing conditions in the market and industry provide him with the ability to successfully lead the Company.

David V. Creel. Mr. Creel, 73, has 48 years oil and gas experience as a petroleum exploration geologist. Mr. Creel held various geological and supervisory positions in Libya during his eleven-year career with AMOSEAS (the operator for CALTEX Petroleum). Mr. Creel was also the Exploration Manager of the Rocky Mountain Region and Canada for Ladd Petroleum Company; Exploration Manager of the Rocky Mountain Region for Kilroy Company of Texas; and President of Aztec Resources Corporation. Since 1995, Mr. Creel worked as an independent geologic consultant and in June 1998 he joined GeoPetro in his current role as Vice President of Exploration. Mr. Creel has served as a director of GeoPetro since October 2001. Mr. Creel is a graduate of the University of Notre Dame with a Bachelor's degree in Geology and the University of Tulsa with a Master's degree in Geology.

Mr. Creel has been an officer and Vice President of Exploration of GeoPetro since 1998 and has served as a member of our Board for more than 10 years. Based on his experience at Ladd Petroleum Company and AMOSEAS, which is described above, Mr. Creel is able to deliver important geological and technical insights to our management and other directors on our various oil and gas projects, which are both developmental and exploratory in nature. His prior experience in exploring diverse geologic basins in both the US and internationally for oil and gas enables him to lend expertise with respect to our geographically diverse portfolio of oil and gas assets.

Thomas D. Cunningham. Mr. Cunningham, 64, has 36 years of experience in general management, with expertise in mergers and acquisitions, foreign exchange, sales, financial analysis and personnel management. Most recently, he has served as Senior Vice President of OfficePower L.L.C., a privately owned company in the distributed generation business. Prior to joining OfficePower Inc. , Mr. Cunningham served as Executive Vice President and Chief Financial Officer of Microban International, Ltd., a seller and licensor of branded additives from 2000 to 2003. From 1997 to 2000, Mr. Cunningham was a member of the Board and Executive Vice President of EMCOR Group, Inc. Prior to EMCOR, Mr. Cunningham was with Swiss Army Brands Inc. from 1994 to 1997, where he served on the Board of Directors and as Executive Vice President and Chief Financial Officer. Prior to that position, Mr. Cunningham spent 21 years with J.P. Morgan & Co., in various positions of increasing responsibility and last served as Managing Director in the Corporate Banking Group. Mr. Cunningham has served as a director of GeoPetro since April 2000. Mr. Cunningham is a graduate of Harvard College with a Bachelor's degree in Economics and Columbia University with a Master's degree in Business Administration.

Mr. Cunningham has been a member of our Board for 13 years, and has provided independent leadership to our Board as our Audit Committee Chairman. In addition to having extensive historical knowledge of GeoPetro and its business, Mr. Cunningham brings to the Board a wide range of experience with respect to senior management and corporate finance which supports the Board's management oversight role as well as its commitment to oversee and direct corporate strategy. In recognition of Mr. Cunningham's skills in overseeing GeoPetro's financial reporting as well as his overall leadership abilities, his fellow directors elected him as Chairman of the Audit Committee.

David G. Anderson. Mr. Anderson, 60, became Vice Chairman of Dundee Securities Ltd. in November 2009. Prior to that time, he was a Senior Vice President and director of Dundee Securities Corporation where he has managed the firm's investment banking and capital markets activities since 1998. Mr. Anderson began his career with the National Energy Board of Canada in 1976 and later was employed by Amoco Production Company from 1978 to 1986 in its Calgary, Chicago and Houston offices. In 1987, Mr. Anderson returned to Canada with Midland Doherty and later joined BBN James Capel where he was the Managing Director from 1988 to 1995. From 1995 to 1998, Mr. Anderson was a partner and Managing Director with another investment dealer, Loewen, Ondaatje, McCutcheon Limited. Mr. Anderson has served as a director of GeoPetro since March 2006. Mr. Anderson is a graduate from the University of Manitoba with a Master's degree in Business Administration and Bachelor's degree in Arts.

Mr. Anderson has been a member of our Board for 7 years, and currently serves on our Audit Committee. Mr. Anderson provides the Board with a combination of historical industry perspective and an extensive understanding of the industry's current challenges and opportunities, both as an investment banker and experienced business person in our industry. Mr. Anderson brings extensive senior management and capital markets experience including acquisitions, divestitures, spin-offs, and cross-border transactions. His expertise is valuable in directing corporate strategy.

Christopher T. Czuppon. Mr. Czuppon, 36, is the Managing Director of CC Natural Resource Partners, LLC and has held that position from 2009 to present. He has thirtenn years of experience in the energy corporate finance industry focusing his efforts in exploration and production, oilfield services, midstream, electric power and renewable and alternative fuels. Specifically, he has worked in the energy industry on the investment banking, business development and direct private investment aspects of the business. Prior to founding CC Natural Resource Partners, Mr. Czuppon was employed by Energy Capital Solutions, an energy focused investment bank, from February 2004 until March 2009. Mr. Czuppon served as lead banker and an integral deal team member on financing and advisory mandates as well as new business development for micro-cap and small-cap energy companies. Mr. Czuppon's transaction experience for public and private companies includes 15 M&A transactions totaling $1.0 billion in value, 41 private placement transactions totaling $1.2 billion in total capital raised and 24 senior and mezzanine debt transactions totaling $1.2 billion in total debt capital raised. Mr. Czuppon was an Analyst with the Hunt Oil Company's business development and energy private equity group focusing on midstream oil and gas, oilfield services, and power transactions from 2003 to 2004. Prior to his role with the Hunt Oil Company, Mr. Czuppon worked for the Hunt Power Company as a financial analyst in a similar capacity. The Board has determined that he is an "audit committee financial expert" as defined by SEC rules. Mr. Czuppon earned a B.A. in economics from the University of Texas at Austin with concentrations in money and banking and public finance.

Mr. Czuppon has been a member of our Board for 3 years, and currently serves on our Audit Committee. Mr. Czuppon's acumen in corporate finance brings additional vigor and sharpness to our Board of Directors. Mr. Czuppon has a strong background in providing financial transactional services on a wide range of corporate matters including mergers and acquisitions, private placements, debt and equity financings. His expertise is valuable to us in the execution of our corporate strategy.

Executive Officers

The following table provides information regarding our executive officers, their ages, the year in which each first became an officer of the Company and descriptions of their backgrounds.

Name
Stuart J. Doshi (67) President, CEO and Chairman (a)
David V. Creel (73) Vice President of Exploration and Director (a)
Dale W. Dvoracek (48) Vice President of Finance (b)

(a) Information regarding the executive officers is provided under "Directors."

(b) Dale W. Dvoracek was appointed as the Company's Principal Accounting Officer in October 2011 and currently serves as the Company's Vice President of Finance.

Legal Proceedings

Currently, no director or executive officer is a party to any legal proceeding adverse to the interests of the Company. Additionally, no director or executive officer has an interest in any proceeding adverse to the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires our officers, directors and persons who beneficially own more than ten percent of our common stock to file reports of securities ownership and changes in such ownership with the Securities and Exchange Commission ("SEC"). Officers, directors and greater than ten percent beneficial owners also are required by rules promulgated by the SEC to furnish us with copies of all Section 16(a) forms they file. Based on a review of such reports we believe that during our fiscal year ended December 31, 2012, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were timely complied with.

Code of Business Conduct and Ethics

Our board of directors has adopted a code of business conduct and ethics that applies to all of our employees, executive officers and directors. Our code of business conduct and ethics is posted on our website, www.geopetro.com, under the Investor Relations section. In addition, a copy of the code of business conduct and ethics will be provided without charge upon request to the Corporate Secretary, GeoPetro Resources Company, 150 California Street, Suite 600, San Francisco, CA 94111. We intend to disclose any future amendments to certain provisions of our code of business conduct and ethics, or waivers to such provisions, applicable to our directors and executive officers, at the same location on our website identified above. The inclusion of our website address in this proxy statement does not include or incorporate by reference the information on our website into this proxy statement.

Corporate Governance

Board of Directors

David Anderson, Thomas Cunningham and Christopher Czuppon, current directors, are independent as defined by the rules of the NYSE MKT. Stuart Doshi and David Creel, current directors, are not independent as defined by the rules of the NYSE MKT. Our Board of Directors is currently comprised of a majority of independent directors.

Company Leadership Structure

Stuart Doshi serves as both the principal executive officer and board chairman. We believe this board leadership structure is appropriate given the specific characteristics and circumstances of the Company. Specifically, we believe it is appropriate due to the relatively small size of the Company (i.e. less than $100 million in assets) and the fact that Mr. Doshi possesses the critical historical and institutional knowledge of the Company's projects and the complex multi-jurisdictional contractual arrangements governing them. We believe any discussions concerning the strategic direction of our Company should be conducted with this knowledge, insight and experience. In his capacity as Chairman, Mr. Doshi has the following responsibilities:

- Calls meetings of the Board,
- Chairs meetings of the Board and the Annual Shareholders' Meeting,
- Establishes Board meeting schedules and agendas,
- Ensures that information provided to the Board is timely, complete, and accurate,
- Communicates with all directors on key issues and concerns outside of Board meetings, and
- Represents the Company to and interacts with shareholders and employees.

The Board of Directors believes that having Mr. Doshi serve as both the Chief Executive Officer and the Chairman of the Board of Directors is a benefit to the overall success and growth of the Company. Since he manages the day-to-day operations, he has a unique perspective on the Company's technical and financial strengths and is best positioned to chair board meetings where key business issues and corporate strategies are discussed on a routine basis.

The strong working relationships among Mr. Doshi and the other Directors foster open communications among the members of the Board. The Board believes that such communication is vital to understanding issues, promoting oversight, and encouraging the frank discussion of matters essential to leading a complex and dynamic company.

We will continue to examine our corporate governance policies and leadership structures on an ongoing basis to ensure that they continue to meet the Company's needs.

The Company does not have a lead independent director.

The board of directors and its audit committee play a critical role in risk oversight by establishing the right environment or tone at the top by senior executives and others throughout the enterprise. It is the board's responsibility to represent the interests of shareholders. The board also plays a vital role in overseeing management's approach to enterprise risk management, including the determination of the Company's appetite for risk.

Committees of the Board of Directors

We have an Audit Committee of the Board of Directors which complies with the rules of the NYSE MKT and the SEC. Our Audit Committee charter is available on our website, www.geopetro.com, under the investor relations section. The inclusion of our website address in this proxy statement does not include or incorporate by reference the information on our website into this proxy statement.

Audit Committee

Our Audit Committee currently consists of three directors, Thomas Cunningham, Christopher Czuppon and David Anderson. Messrs. Cunningham, Czuppon and Anderson are independent as defined by the rules of the NYSE MKT and the SEC. Each member of the Audit Committee meets the financial literacy and experience requirements of the SEC and NYSE MKT rules. Mr. Cunningham serves as the chairperson of the Audit Committee and Christopher Czuppon is an "audit committee financial expert" under applicable SEC rules. Our Audit Committee operates pursuant to a written charter that satisfies applicable SEC and NYSE MKT rules. Our Audit Committee charter is available on our website at http://www.geopetro.com.

Our Audit Committee charter requires that the Audit Committee oversee our corporate accounting and financial reporting processes. The primary duties of our Audit Committee are to, among other things:

- evaluate our independent auditors' qualifications, independence and performance;
- determine the engagement and compensation of our independent auditors;
- approve the retention of our independent auditors to perform any audit and permissible non-audit services;
- monitor the rotation of partners of the independent auditors on our engagement team as required;
- review our consolidated financial statements;
- review our critical accounting policies;
- meet with our management periodically to consider the adequacy of our internal controls and procedures for financial reporting;
- establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters;
- review on an ongoing basis and approve related party transactions;
- prepare the reports required by the rules of the SEC to be included in our annual proxy statement;
- discuss with our management and our independent auditors the results of our annual audit and the review of our quarterly consolidated financial statements.

Audit Committee Report (1)

Our Audit Committee currently consists of three directors, Thomas Cunningham, Christopher Czuppon and David Anderson. Messrs. Cunningham, Czuppon and Anderson are independent as defined by the rules of the NYSE MKT and the SEC. Each member of the Audit Committee meets the financial literacy and experience requirements of the SEC and NYSE MKT rules. Mr. Cunningham serves as the chairperson of the Audit Committee and Christopher Czuppon is an "audit committee financial expert" under applicable SEC rules. We have adopted an Audit Committee charter that satisfies applicable SEC and NYSE MKT rules. The Committee met five times during fiscal year 2012 to fulfill its responsibilities.

The role of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Board of Directors. Management is responsible for the Company's accounting, consolidated financial statements and financial reporting processes. The Company's independent auditor is responsible for performing an independent audit of the Company's consolidated financial statements and expressing an opinion as to the conformity of such consolidated financial statements with generally accepted auditing standards.

In this context, the Committee has reviewed and discussed the audited financial statements of the Company as of and for the year ended December 31, 2012 with management and Burr Pilger Mayer Inc. ("Burr Pilger Mayer"), the Company's independent auditor. The Committee discussed with Burr Pilger Mayer matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1.AU Section 380) as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Committee has received the written disclosures and the letter from Burr Pilger Mayer required by the applicable requirements of the Public Company Accounting Oversight Board regarding Burr Pilger Mayer's communications with the Audit Committee concerning independence. The Audit Committee discussed their independence with them and satisfied itself of the independence of the independent registered public accountants. The Committee considered the effects that the provision of non-audit services may have on the auditor's independence.

Based on the reviews and discussions referred to in this report, and subject to the limitations on the role and responsibilities of the Committee referred to in its charter, the Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC.

THE AUDIT COMMITTEE

Thomas Cunningham (Chair)
David Anderson
Christopher Czuppon

(1) SEC filings sometimes incorporate information by reference. This means that the Company is referring you to information that has previously been filed with the SEC, and that this information should be considered as part of the filing you are reading. Unless GeoPetro specifically states otherwise, this report shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act or the Securities Exchange Act.

Compensation Committee

We do not have a Compensation Committee and, as such, we do not have a Compensation Committee charter. The Board of Directors believes that it is in the best interest of the Company to permit all independent directors to fully participate in the compensation decisions for our executive officers, as well as our directors. In accordance with the rules of the NYSE MKT, the compensation of our Chief Executive Officer and all other executive officers is determined, or recommended to the Board of Directors for determination, by a majority of independent directors.

The independent directors' duties include:

- establishing overall employee compensation policies and recommending to our Board of Directors major compensation programs;

- reviewing and approving the compensation of our corporate officers and directors, including salary, bonus awards and stock option grants;

- administering our various employee benefit, pension and equity incentive programs;

- reviewing executive officer and directors indemnification and insurance matters;

- managing and reviewing employee loans; and

- preparing a report on executive compensation for inclusion in our annual report and, as applicable, our proxy or information statement.

Our current independent directors who participate in the consideration of executive officer and director compensation are David Anderson, Thomas Cunningham and Christopher Czuppon. In establishing compensation for our executive officers and directors, we do not rely on independent compensation consultants to analyze or prepare formal surveys for us. Our independent directors review executive compensation on an annual basis. In establishing compensation to our executives, we strive to provide compensation that will: (1) motivate and retain executives and reward performance; (2) encourage our long-term success; (3) encourage the long-term enhancement of shareholder value; and (4) encourage the application of prudent decision-making processes in an industry marked by volatility and high risk.

Nominating Committee

We do not have a Nominating Committee and, as such, we do not have a Nominating Committee charter. The Board of Directors believes that it is in the best interest of the Company to permit all independent directors to fully participate in the director nomination process. In accordance with the rules of the NYSE MKT, director nominees are selected, or recommended to the Board of Directors for selection, by a majority of independent directors. The independent directors do not have a policy that considers diversity when identifying nominees for director. In addition, the independent directors' duties include:

- establishing standards for service on our Board of Directors and nominating guidelines and principles;
- identifying individuals qualified to become members of our Board of Directors and recommending director candidates for election to our Board of Directors;
- considering and making recommendations to our Board of Directors regarding its size and composition, committee composition and structure and procedures affecting directors;
- establishing policies regarding the consideration of any director candidates recommended by our shareholders, and the procedures to be followed by shareholders in submitting such recommendations;
- evaluating and reviewing the performance of existing directors; and
- monitoring our corporate governance principles and practices and making recommendations to our Board of Directors regarding governance matters, including our articles of incorporation, bylaws and charters of our committees.

Our current independent directors who participate in the consideration of director nominees are David Anderson, Thomas Cunningham and Christopher Czuppon. At an appropriate time prior to each annual meeting of shareholders at which directors are to be elected or reelected, and whenever there is otherwise a vacancy on the Board, the independent directors who participate in the consideration of director nominees will assess the qualifications and effectiveness of the current board members and, to the extent there is a need, shall actively seek additional individuals well-qualified and available to serve to become board members. Members of management, the independent directors or any other member of the board may identify a need to add a new member to the board with specific criteria at any other time. Shareholders of the Company may identify a potential director candidate in accordance with the procedures set forth below. The independent directors may choose to hire an independent search firm to identify potential director candidates in those situations where particular qualifications are required or where existing contacts are not sufficient to identify an appropriate candidate.

We have adopted procedures by which shareholders may recommend director candidates for membership to our board. Each shareholder recommending a person as a director candidate must provide the Company at its principal executives offices with the following information in order for the independent directors to determine whether the recommended director candidate is independent from the shareholder or each member of the shareholder group that has recommended the director candidate:

(i) If the recommending shareholder or any member of the recommending shareholder group is a natural person, whether the recommended director candidate is the recommending shareholder, a member of the recommending shareholder group, or a member of the immediate family of the recommending shareholder or any member of the recommending shareholder group;

(ii) If the recommending shareholder or any member of the recommending shareholder group is an entity, whether the recommended director candidate or any immediate family member of the recommended director candidate has been an employee of the recommending shareholder or any member of the recommending shareholder group during the then-current calendar year or during the immediately preceding calendar year;

(iii) Whether the recommended director candidate or any immediate family member of the recommended director candidate has, during the year of the nomination or the preceding three fiscal years of the Company, accepted directly or indirectly any consulting, advisory, or other compensatory fee from the recommending shareholder or any member of the group of recommending shareholders or any affiliate of any such holder or member, provided that compensatory fees would not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with such holder or any such member (provided that such compensation is not contingent in any way on continued service);

(iv) Whether the recommended director candidate is an executive officer or director (or person fulfilling similar functions) of the recommending shareholder or any member of the recommending shareholder group, or of an affiliate of the recommending shareholder or any such member of the recommending shareholder group; and

(v) Whether the recommended director candidate controls the recommending shareholder or any member of the recommending shareholder group (or in the case of a holder or member that is a fund, an interested person of such holder or any such member as defined in Section 2(a)(19) of the Investment Company Act).

Each shareholder recommending a person as a director candidate or the person recommended by a shareholder as a director candidate must provide the Company with such information as may be reasonably required to determine whether the recommended director candidate is qualified to serve on the Audit Committee of the board, so that the independent directors may assess whether, if the candidate were elected to the board, the board as then composed would have a sufficient number of directors qualified to serve on the Audit Committee in accordance with the rules of the NYSE MKT and the Securities and Exchange Commission.

Each shareholder recommending a person as a director candidate or the person recommended by a shareholder as a director candidate must provide the Company with such information as may be reasonably required to determine whether the director candidate meets the standards of independence established by NYSE MKT and the SEC so that the independent directors may assess whether, if the candidate were elected to the board, the board as then composed would have a sufficient number of independent directors.

The Company may request from the recommending shareholder such other information as may reasonably be required to determine whether each person recommended by a shareholder as a director candidate meets the minimum director qualifications established by the Company's board, to enable the Company to make appropriate disclosures to shareholders entitled to vote in the next election of directors.

The shareholder must submit a detailed resume for the candidate and an explanation of the reasons why the shareholder believes this candidate is qualified for service on the board. The shareholder must include the consent of the candidate and describe any arrangements or undertakings between the shareholder and the candidate regarding the nomination. The shareholder must also submit proof of his, her or its Company stockholdings.

The person recommended by a shareholder as a director candidate shall make himself or herself reasonably available to be interviewed by the independent directors and members of management, as determined appropriate by the independent directors. The Company will not accept a shareholder recommendation for a director candidate if the recommended candidate's candidacy or, if elected, board membership, would violate controlling state law, federal law or the rules of any exchange or market on which the Company's securities are listed or traded.

The independent directors evaluate nominees recommended by shareholders on the same basis as nominees recommended by any other source. Nominations to the board may be submitted by shareholders of the Company for consideration by the Board of Directors by sending such nominations to: Stuart J. Doshi, Chairman, President and Chief Executive Officer, GeoPetro Resources Company, 150 California Street, Suite 600, San Francisco, CA 94111.

Currently, there are no specific minimum qualifications that the independent directors believe must be met by a nominee for director, whether such director is recommended by a shareholder or identified by the independent directors. In making their assessment of nominees, the independent directors seek candidates who meet the current challenges and needs of the board. In making their assessment, the independent directors may request that nominees complete and return a questionnaire prepared by the Company. The independent directors will consider issues of independence, knowledge, judgment, diversity, skills, education, character, standing in the community, and industry and financial background and experience. If the independent directors preliminarily determine that the potential candidate is qualified to fill a vacancy or to satisfy a particular need after a preliminary inquiry, the independent directors will make an investigation and interview the potential candidate, as necessary, to make an informed final determination. During this process, the independent directors may solicit input from other members of the Board, the Company's Chief Executive Officer and members of the Company's senior management, as the independent directors deem appropriate, during the interview and evaluation process, regardless of who recommended the candidate.

Meetings of the Board and the Committees of the Board

During 2012, the Board of Directors held seven regular meetings. In 2012, the Audit Committee held five regular meetings. All of the directors attended 100 percent of the meetings of the Board and of the committee on which they served during that period, except David Anderson who attended all of the Board meetings and eighty percent of the Audit Committee meetings due to scheduling conflicts. Mr. Anderson was briefed by Mr. Doshi on these occasions. Directors are expected to attend our annual meeting of shareholders. All of our directors attended our annual meeting of shareholders in 2012.

Communications with the Board of Directors

If a shareholder would like to write to the Board, he or she may send written correspondence to the following address: GeoPetro Resources Company, Attn: Board of Directors, 150 California Street, Suite 600, San Francisco, CA 94111. Shareholders should provide proof of share ownership with their correspondence. It is suggested that shareholders also include contact information. All communications will be received and processed by our President, and then directed to the appropriate member(s) of the Board. In general, correspondence relating to accounting or auditing matters will be referred to the Chairperson of the Audit Committee. All other correspondence will be referred to the independent directors. To the extent correspondence is addressed to a specific director or requires a specific director's attention, it will be directed to that director.

Oversight of Risk Management

The Company is exposed to a number of risks and undertakes enterprise risk management reviews to identify and evaluate these risks and to develop plans to manage them effectively. The Company's executive officers are directly responsible for the Company's enterprise risk management function and report to the Board of Directors. Although not inclusive, a list of items considered generally includes:

- accurate and complete financial reporting,
- rules and regulations of the NYSE MKT,
- environmental and safety issues,
- safeguarding of Company assets,
- adequacy of insurance protection,
- compliance with all credit facility covenants, and
- employee relations issues.

The Board of Directors plays a key role in the oversight of the Company's enterprise risk management function. Using their collective skills and experience, they consider information provided by management and provide feedback and make recommendations, if needed, to try to help minimize risk to the Company's current and future value.

Item 11. Executive Compensation

Compensation Discussion and Analysis

We do not presently have a Compensation Committee. The Board of Directors believes that it is in the best interest of the Company to permit all independent directors to fully participate in the compensation decisions for our executive officers. In accordance with the rules of the NYSE MKT, the compensation of our executive officers is determined, or recommended to the Board of Directors for determination, by a majority of independent directors. The independent directors consider the input of Stuart Doshi, our President and Chief Executive Officer, in making their recommendations for our other executive officers. The independent directors do not engage compensation consultants in formulating compensation decisions.

Our independent directors are responsible for reviewing executive compensation on an annual basis. Compensation for our executive officers consists of three components:

- base salaries;
- stock option grants; and
- cash bonuses.

In establishing the compensation paid to our executives, we emphasize providing compensation that will: (1) motivate and retain executives and reward performance; (2) encourage our long term success; (3) encourage the long term enhancement of shareholder value; and (4) encourage the application of prudent decision making processes in an industry marked by volatility and high risk.

Historically, we have evaluated compensation paid to our executive officers based upon the following factors:

- the growth in our oil and gas reserves and production;
- cash flow;
- the extent to which our executive officers have been successful in finding and creating opportunities for us to participate in attractive oil and gas projects;
- the ability of our executives to formulate and maintain sound budgets for drilling ventures and other business activities;
- our overall financial condition;
- the extent to which proposed business plans are met; and
- by comparing the compensation packages of our executive officers with the compensation packages of executive officers of other companies in the oil and gas industry, which are similar to us in their size and operations, among other factors.

We do not assign relative weights or rankings to these factors. Instead, we make subjective determinations based upon a consideration of all of these factors. While specific performance levels or "benchmarks" are not used to establish compensation, we do take into account our overall progress over time.

In establishing compensation for our executive officers, we do not rely on independent consultants to analyze or prepare formal surveys for us; however, we make informal comparisons of our executives' compensation with the compensation paid to executives of other publicly and privately held companies similar to ours. Companies included in our informal comparisons included companies in our deemed industry peer group including Kodiak Oil and Gas Corporation (KOG), GeoMet, Inc. (GMET), Double Eagle Petroleum Co. (DBLE), and Gasco Energy, Inc. (GSX). These companies are publicly-traded exploration and production companies. In addition, we take into account the fact that we do not provide significant perquisites and we provide no retirement plan or pension benefits to our executive officers.

Compensation Risks

Our independent directors, with the assistance of Mr. Doshi, review the elements of executive compensation to determine whether any portion of executive compensation encouraged excessive risk taking. Management of the Company conducted a similar risk assessment with respect to other employees. Management and the independent directors believe that risks arising from our compensation policies and practices for our executive officers and other employees are not reasonably likely to have a material adverse effect on the Company. In addition, we believe that the mix and design of the elements of compensation do not encourage management to assume excessive risks.

Elements of Compensation

Mr. Doshi is currently party to an employment agreement whereby he is to receive a base salary which is subject to an annual inflation adjustment based on the 1995 Consumer Price Index. In the past, we have amended Mr. Doshi's employment agreement to provide for increases in base salary. When determining base salaries, we perform a subjective analysis of each executive officer's contributions and overall performance, consider the current compensation paid to executives of similar companies, and the officer's current salary.

During 2012 and 2011, salaries accounted for approximately 75% and 90% respectively of total compensation for the Chief Executive Officer.

In reviewing the overall compensation of Mr. Doshi, our President and Chief Executive Officer, we took into account the fact that Mr. Doshi declined receiving an increase in his base salary since 2003. In the past several years, we were faced with intense competition in the oil and gas industry, including competition for oil and gas leases, and scarcity of available drilling rigs and goods and services related to the drilling, testing and completion of wells, and more recently, scarcity of capital and weakening natural gas prices. While industry competition has softened somewhat with the recent economic downturn, in the prior years, competition was intense, particularly from competitors that have similar or greater financial and human resources than we do. We believe the insight, experience and leadership of Mr. Doshi has been instrumental in keeping us positioned to access sufficient capital and remain competitive. Additionally, Mr. Doshi, in his capacity as President and Chief Executive Officer, has been responsible for achieving a number of historical benchmarks for us, including, but not limited to:

- Negotiating with Hanover Compression Limited Partnership and Gateway Processing Company the installation and construction of a new gas treatment plant and related pipelines which became operational in 2003 in the Madisonville Project, which was necessary in order to treat natural gas production from our wells in the Madisonville Field in Texas.

- Arranging the sale of the gas treatment plant by Hanover to Madisonville Gas Processing, LP and the related commitment by MGP to expand the treating capacity of the plant from 18 million cubic feet of natural gas per day to 68 million cubic feet of natural gas per day.

- Negotiating on favorable terms to the Company the purchase of the Madisonville gas treatment plant and related gathering pipelines in exchange for the assumption of secured bank debt, payment of certain outstanding payables and shares of GeoPetro's common stock.

- The drilling of additional wells at the Madisonville Project in an industry environment affected by intense competition and shortages of available drilling rigs and associated goods and services.

- On March 30, 2006, we completed an initial public offering in Canada, which consisted of 3,730,021 shares of common stock at an issue price of $3.50 per share and 519,500 shares of common stock issued on a "flow-through" basis under the Income Tax Act (Canada) at an issue price of $3.85 per share for aggregate gross proceeds of $15,055,149.

- On September 29, 2006 we sold 70% of our interest in C-G Bengara to CNPCHK (Indonesia) Limited in exchange for a substantial financial commitment from CNPC to conduct exploration, appraisal and development activities on the Bengara II PSC production sharing contract in Indonesia.

- The sale of an interest in October 2005 in another Indonesian production sharing contract for cash consideration of $2,400,000.

- The settlement in June 2006 of all of our pending litigation related the Miller and Mejlaender lawsuits.

- Approval of S-1 Registration Statement and the subsequent Company listing on the American Stock Exchange under the symbol "GPR" providing shareholders with a significant increase in liquidity and increase in trading volume.

- Extending leases for the deep rights in Madisonville, Texas and the Lokern Project in the San Joaquin basin of California.

- Completing a $7.7 million common stock offering at $3.85 per unit and satisfying subsequent registration requirements in May, 2008.

- Completing, under difficult market conditions, financings totaling $1.8 million by issuing promissory notes and $5.5 million, net of offering costs, through the issuance of Series B Convertible Preferred Stock to accredited investors in 2009.

- Selling our working interest in the Alaska Leases in the Cook Inlet Region of Alaska to Linc Energy (Alaska) Inc. for upfront cash and significant overriding royalty interests.

- In 2010, raising an additional $2.3 million in equity capital and $0.675 million in debt on favorable terms.

- Securing loan extensions and negotiating a lower interest rate with Bank of Oklahoma, National Association, and securing loan extensions with certain non-bank lenders.

- Settling Devon Energy overriding royalty claims on favorable terms.

- Completing a unit sale through a private placement for a total of $922,648 on favorable terms in March 2011.

- Completing a unit sale through a private placement transaction for a total of $556,560 on favorable terms in June 2011.

- The sale of certain idle and non-income producing plant equipment at the Madisonville Plant to Peregrine Midstream Partners LLC for a final sales price of $9,250,000. As a result of this transaction, GeoPetro recognized a significant gain on the sale of the equipment of $4,069,640 in 2011.

- Negotiating the terms of the proposed merger with MCW Energy Group Limited.

When awarding stock options, we attempt to provide executives with an incentive compensation vehicle that could result in future additional compensation to them, but only if the value of our common stock increases for all shareholders. We perform a subjective analysis of each executive officer's contributions, and we consider the number of options granted on prior occasions and the length of time between option grants. All stock options are granted with exercise prices equal to or above the fair market value of the common stock on the date of grant.

In 2004, we implemented a new 2004 Stock Option and Appreciation Rights Plan (the "Stock Option Plan") providing for awards of incentive stock options, non-qualified stock options and stock appreciation rights. The Stock Option Plan replaced the 2001 Stock Incentive Plan as to new award grants effective in 2004 or thereafter to our directors, officers, employees and consultants. The terms of the Stock Option Plan govern future grants to our named executive officers. The terms provide, among other things, that the exercise price of option grants shall be no less than 110% of the fair market value of the common stock on the date of grant and that such grant shall vest at a rate no less than twenty percent (20%) over five years from the date of grant. We do not have specific established criteria for determining the timing of option grants.

In August 2012, the independent directors determined that additional stock options should be granted to our named executives to provide a long-term incentive to remain employed with us and to work toward the long-term best interests of all of our shareholders. The option grants in 2012 were made pursuant to our 2004 Stock Plan. The options were granted with a five-year vesting schedule providing that 20% of the options would vest on each one year anniversary of the date of grant of August 31, 2012. We determined that the five-year vesting schedule was appropriate to provide a long-term incentive and align the interests of our management with the interests of all our shareholders.

During 2012 and 2011, stock option equity incentives accounted for approximately 14% and 0% of total compensation of the Chief Executive Officer, approximately 17% and 0% of total compensation of the Vice President of Exploration, and approximately 7% and 13% of total compensation of the Vice President of Finance. The Board determined that our named executive officers had a sufficient equity stake in GeoPetro, consisting of shares of common stock and/or existing options and warrants, to align their interests with GeoPetro's and our shareholders.

Bonuses for each of our named executive officers are discretionary. In determining bonus amounts, our independent directors took into consideration that our named executive officers have significant equity interests in GeoPetro through direct ownership of shares or prior option grants, which already provide them with performance incentives. During 2012 and 2011, no bonuses were granted to any of the named officers. In future periods, in considering whether to award bonuses, we will consider such factors as enumerated above in determining overall compensation, with a particular emphasis on our profitability and financial condition.

We provide certain personal benefits to our Chief Executive Officer in the form of life and disability insurance. During both 2012 and 2011, personal benefits accounted for approximately 11% and 10% of total compensation for the Chief Executive Officer.

We do not have any established formal criteria to determine how decisions regarding one compensation element might affect decisions regarding other compensation elements or fit into our overall compensation objectives.

Mr. Doshi's employment agreement provides for substantial and immediate cash payments in the event of a change in control or termination. The amounts of, and the conditions precedent for, such payments are discussed in detail in this proxy statement under "Potential Payments Upon Termination or Change in Control."

It is our conclusion that the amount and types of compensation currently being paid to our executive officers are sufficient to retain and motivate them, reward their performance and encourage their efforts to increase the value of our common stock for all shareholders. We did not pay bonuses for the last several years because of the Company's performance.

Compensation of Executive Officers

The following table sets forth all compensation awarded to, earned by or paid to our Chief Executive Officer, our Vice President of Finance and our other most highly compensated executive officers whose total compensation exceeded $100,000 for services rendered during our 2012 and 2011 fiscal years. These officers are referred to as the named executive officers. No other executive officer received total compensation of more than $100,000 in the fiscal year ended December 31, 2012 and 2011.

Summary Compensation Table

Name and Principal Position (1)	Year	Salary ($)		Bonus ($)	All Other Compensation ($)		Option Awards ($)	Total ($)
Stuart J. Doshi	2012	200,000	(2)	—	30,024	(3)	36,727	266,751
Chairman, President and Chief Executive Officer	2011	426,956	(2)	—	47,159	(3)	—	474,115