

GEOPETRO RESOURCES CO  
Form 10-Q  
November 15, 2010  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-16749

# GeoPetro Resources Company

(Exact name of registrant as specified in its charter)

**California**

(State of incorporation)

**94-3214487**

(IRS Employer Identification Number)

**150 California Street Suite 600**

**San Francisco, CA**

(Address of principal executive offices)

**94111**

(Zip Code)

**(415) 398-8186**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

There were 37,979,646 shares of no par value common stock outstanding on November 15, 2010

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|  | September 30,<br>2010 | December 31,<br>2009 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| <b>Current Assets</b>  |                       |                      |
| Cash and cash equivalents  | \$ 1,889,965          | \$ 2,429,891         |
| Trade accounts receivable natural gas sales                            | 161,741               | 473,944              |
| Accounts receivable other  | 31,373                | 8,658                |
| Prepaid expenses   | 150,223               | 132,238              |
| <b>Total Current Assets</b>  | <b>2,233,302</b>      | <b>3,044,731</b>     |
| <b>Oil and gas properties, at cost (full cost method)</b>              |                       |                      |
| Unproved properties  | 7,558,892             | 8,411,773            |
| Proved properties  | 51,320,517            | 51,194,852           |
| Gas processing plant, at cost  | 10,285,573            | 10,285,573           |
| Less accumulated depletion, depreciation, and impairment               | (39,504,399)          | (38,950,914)         |
| <b>Net Oil and Gas Properties</b>                                      | <b>29,660,583</b>     | <b>30,941,284</b>    |
| <b>Furniture, fixtures and equipment, at cost, net of depreciation</b> |                       |                      |
|  | 46,114                | 2,071                |
| <b>Other assets</b>  | <b>45,281</b>         | <b>16,127</b>        |
| <b>Total Assets</b>  | <b>\$ 31,985,280</b>  | <b>\$ 34,004,213</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                             |                       |                      |
| <b>Current Liabilities</b>   |                       |                      |
| Trade payables   | \$ 1,304,461          | \$ 950,097           |
| Current portion of notes payable                                       | 1,793,611             | 1,549,829            |
| Accrued settlement payable   | 300,000               |                      |
| Interest payable   | 224,621               | 136,233              |
| Dividends payable  | 113,772               | 110,462              |
| Production taxes payable   | 182,300               | 309,904              |
| Other taxes payable  | 5,528                 | 11,147               |
| Royalty owners payable   | 371,484               | 1,151,284            |
| <b>Total Current Liabilities</b>                                       | <b>4,295,777</b>      | <b>4,218,956</b>     |
| <b>Long Term Notes Payable</b>   | <b>5,549,417</b>      | <b>5,986,645</b>     |
| <b>Asset Retirement Obligations</b>                                    | <b>69,826</b>         | <b>65,009</b>        |
| <b>Other Long Term Liabilities</b>                                     | <b>75,051</b>         |                      |
| <b>Total Liabilities</b>   | <b>9,990,071</b>      | <b>10,270,610</b>    |
| <b>Shareholders Equity</b>   |                       |                      |

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|  |                      |                      |
|--|----------------------|----------------------|
| Series B preferred stock, no par value; 7,523,000 shares authorized; 7,523,000 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively. Liquidation preference of \$5,642,250 at September 30, 2010 and December 31, 2009, respectively. | 5,448,602            | 5,448,602            |
| Common stock, no par value; 100,000,000 shares authorized; 37,879,646 and 34,284,646 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively   | 55,123,333           | 53,397,733           |
| Additional paid-in capital   | 3,384,876            | 3,060,187            |
| Accumulated deficit  | (41,961,602)         | (38,172,919)         |
| Total Shareholders Equity  | 21,995,209           | 23,733,603           |
| <b>Total Liabilities and Shareholders Equity</b>   | <b>\$ 31,985,280</b> | <b>\$ 34,004,213</b> |

*See accompanying notes to these unaudited consolidated financial statements*

Table of Contents**GEOPETRO RESOURCES COMPANY****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | <b>Three Months Ended September 30,</b> |                | <b>Nine months Ended September 30,</b> |                |
|--|---|----------------|--|----------------|
|  | <b>2010</b>                             | <b>2009</b>    | <b>2010</b>                            | <b>2009</b>    |
| <b>Revenues</b>  |   |                |  |                |
| Natural gas sales  | \$ 641,603                              | \$ 973,653     | \$ 2,647,972                           | \$ 2,919,923   |
| <b>Costs and expenses</b>  |   |                |  |                |
| Plant operating  | 973,189                                 | 1,396,346      | 3,160,138                              | 3,749,484      |
| Lease operating  | 69,469                                  | 93,773         | 264,052                                | 478,187        |
| General and administrative   | 539,492                                 | 561,227        | 1,776,514                              | 2,026,821      |
| Impairment   |   | 939,703        |  | 939,703        |
| Depreciation and depletion   | 163,380                                 | 432,559        | 559,862                                | 1,159,050      |
| Total costs and expenses   | 1,745,530                               | 3,423,608      | 5,760,566                              | 8,353,245      |
| Loss from operations   | (1,103,927)                             | (2,449,955)    | (3,112,594)                            | (5,433,322)    |
| <b>Other Income and (Expense)</b>                                      |   |                |  |                |
| Interest expense   | (173,103)                               | (163,645)      | (522,011)                              | (563,991)      |
| Interest income  | 103                                     | 976            | 1,579                                  | 4,949          |
| Gain on sale of equipment  |   | 1,488,687      |  | 1,488,687      |
| Gain recognized in connection with settlement of accrued liability     | 182,751                                 |                | 182,751                                |                |
| Total other income (expense)   | 9,751                                   | 1,326,018      | (337,681)                              | 929,645        |
| Loss Before Taxes  | (1,094,176)                             | (1,123,937)    | (3,450,275)                            | (4,503,677)    |
| Income tax (expense) benefit   |   | 2,836          | (800)                                  | 991            |
| Net Loss   | (1,094,176)                             | (1,121,101)    | (3,451,075)                            | (4,502,686)    |
| Preferred stock dividend   | (113,773)                               | (43,871)       | (337,608)                              | (68,583)       |
| Net Loss Applicable to Common Shareholders                             | \$ (1,207,949)                          | \$ (1,164,972) | \$ (3,788,683)                         | \$ (4,571,269) |
| Net loss per common share basic and diluted                            | \$ (0.03)                               | \$ (0.03)      | \$ (0.11)                              | \$ (0.13)      |
| Weighted average number of common shares outstanding basic and diluted | 34,520,298                              | 34,284,646     | 34,363,770                             | 34,284,646     |

*See accompanying notes to these unaudited consolidated financial statements.*

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## GEOPETRO RESOURCES COMPANY

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | For the Nine Months Ended |                       |
|--|---------------------------|-----------------------|
|  | September 30,<br>2010     | September 30,<br>2009 |
| <b>Cash Flows From Operating Activities</b>  |                           |                       |
| Net loss   | \$ (3,451,075)            | \$ (4,502,686)        |
| <i>Adjustments to reconcile net loss to net cash used in operating activities:</i> |                           |                       |
| Depreciation and depletion   | 559,862                   | 1,159,050             |
| Share-based compensation expense   | 316,883                   | 299,133               |
| Non-cash interest expense  | 86,676                    | 37,849                |
| Impairment expense   |                           | 939,703               |
| Gain on sales of assets  |                           | (1,488,687)           |
| Gain recognized in connection with settlement of accrued liability                 | (182,751)                 |                       |
| Accretion of discount on asset retirement obligations                              | 3,854                     | 3,503                 |
| <i>Changes in operating assets and liabilities:</i>                                |                           |                       |
| Accounts receivable - natural gas sales  | 312,203                   | (274,598)             |
| Other assets   | (69,855)                  | 82,663                |
| Current liabilities  | 163,708                   | 393,236               |
| Other long term liabilities  | 60,348                    |                       |
| Net cash used in operating activities  | (2,200,147)               | (3,350,834)           |
| <b>Cash Flows from Investing Activities</b>  |                           |                       |
| Additions to oil and gas properties  | (138,164)                 | (678,352)             |
| Additions to gas treatment plant   |                           | (83,097)              |
| Acquisition of furniture, fixtures & equipment                                     | (35,717)                  |                       |
| Dispositions of oil and gas properties   | 1,000,000                 |                       |
| Dispositions of equipment  |                           | 2,500,000             |
| Net cash provided by investing activities  | 826,119                   | 1,738,551             |
| <b>Cash Flows from Financing Activities</b>  |                           |                       |
| Proceeds from sale of common shares  | 1,725,600                 |                       |
| Proceeds from sale of preferred stock Series B, net                                |                           | 3,031,710             |
| Proceeds from promissory notes   |                           | 1,177,000             |
| Payments of loan fee   | (7,200)                   | (15,200)              |
| Repayments of notes payable  | (550,000)                 | (1,707,000)           |
| Payments of preferred stock dividend   | (334,298)                 |                       |
| Net cash provided by financing activities  | 834,102                   | 2,486,510             |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>                        | <b>(539,926)</b>          | <b>874,227</b>        |
| <b>Cash and Cash Equivalents</b>   |                           |                       |
| Beginning of period  | 2,429,891                 | 770,779               |
| End of period  | \$ 1,889,965              | \$ 1,645,006          |

**Supplemental Disclosure of Cash Flow Information**

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|                            |    |         |    |         |
|----------------------------|----|---------|----|---------|
| Cash paid for interest     | \$ | 346,947 | \$ | 412,769 |
| Cash paid for income taxes | \$ | 800     | \$ | (991)   |

*See accompanying notes to these unaudited consolidated financial statements.*



Table of Contents**GEOPETRO RESOURCES COMPANY****UNAUDITED STATEMENT OF SHAREHOLDERS EQUITY**

|   | Preferred Stock<br>Series B |              | Common Stock |               | Additional Paid-<br>in<br>Capital | Accumulated<br>Deficit | Total<br>Shareholders<br>Equity |
|---|-----------------------------|--------------|--------------|---------------|-----------------------------------|------------------------|---------------------------------|
|   | Shares                      | Amount       | Shares       | Amount        |                                   |                        |                                 |
| Balances, January 1, 2010                   | 7,523,000                   | \$ 5,448,602 | 34,284,646   | \$ 53,397,733 | \$ 3,060,187                      | \$ (38,172,919)        | \$ 23,733,603                   |
| Issuance of common stock<br>for cash        |                             |              | 3,595,000    | 1,725,600     |                                   |                        | 1,725,600                       |
| Share-based compensation<br>expense         |                             |              |              |               | 316,883                           |                        | 316,883                         |
| Fair value of warrants<br>issued with notes |                             |              |              |               | 7,806                             |                        | 7,806                           |
| Net loss                                    |                             |              |              |               |                                   | (3,451,075)            | (3,451,075)                     |
| Dividends on Series B<br>Preferred Stock    |                             |              |              |               |                                   | (337,608)              | (337,608)                       |
| Balances, September 30,<br>2010             | 7,523,000                   | \$ 5,448,602 | 37,879,646   | \$ 55,123,333 | \$ 3,384,876                      | \$ (41,961,602)        | \$ 21,995,209                   |

*See accompanying notes to these unaudited consolidated financial statements.*

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**GEOPETRO RESOURCES COMPANY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION AND USE OF ESTIMATES**

The interim consolidated financial statements of GeoPetro Resources Company ( we, us, our, GeoPetro or the Company ) are unaudited and contain all adjustments (consisting primarily of normal recurring accruals) necessary for a fair statement of the results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for a full year or for previously reported periods due in part, but not limited to, the volatility in crude oil and natural gas commodity prices, interest rates, estimates of reserves, drilling risks, geological risks, transportation restrictions, the timing of acquisitions, product demand, market competition, interruption in production and our ability to obtain additional capital. You should read these consolidated interim financial statements in conjunction with the audited consolidated financial statements and notes thereto included in GeoPetro's Annual Report on Form 10-K for the year ended December 31, 2009.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and include the accounts of GeoPetro and its wholly-owned subsidiaries. Intercompany accounts and transactions are eliminated. In preparing the accompanying financial statements, management has made certain estimates and assumptions that affect reported amounts in the financial statements. Actual results may differ from those estimates. Significant assumptions are required in the valuation of proved oil and natural gas reserves, which may affect the amount at which oil and natural gas properties are recorded. The computation of share-based compensation expense requires assumptions such as volatility, expected life and the risk-free interest rate. It is at least reasonably possible these estimates could be revised in the near term, and these revisions could be material.

**2. LIQUIDITY**

As of September 30, 2010, we had a working capital deficit of \$2,062,475, and for the nine months ended September 30, 2010, our cash used in operating activities amounted to \$2,200,147. We estimate our minimum investment needs during (i) the remainder of 2010 and (ii) calendar 2011, amount to \$3,207,000 related to our natural gas processing plant and our natural gas properties within the Madisonville field and our California properties. Our results of operations resulted in an accumulated deficit of \$41,961,602 from inception through the nine months ended September 30, 2010. Further, we have maturing debt obligations, debt service and dividend requirements that will require cash payments. We hold working interests in undeveloped leases, seismic options, lease options and foreign concessions and we have participated in seismic surveys and the drilling of test wells on undeveloped properties. We plan further leasehold acquisitions and seismic operations for the remainder of 2010 and future periods. Exploratory and developmental drilling is scheduled during 2010 and future periods on our undeveloped properties. During the nine months ended September 30, 2010, we raised \$1,725,600 through a private placement transaction to certain institutional and individual accredited investors (Note 8). On September 1, 2010, we renewed three of our notes payable for an additional one year term (Note 6). On February 26, 2010, we sold our 100% working interest in approximately 122,000 acres onshore in the Cook Inlet region of Alaska (Note 5). In addition to these items, we will need to raise additional equity or enter into new borrowing arrangements to finance our operating deficit and our continued participation in planned activities. If additional financing is not available, we will be compelled to reduce the scope of our business activities. If we are unable to fund our operating cash flow needs and planned capital investments, it will be necessary to farm-out our interest in proposed wells, sell a portion of our interest in prospects, sell a portion of our interest in our producing oil and gas properties, reduce general and administrative expenses, or a combination of all of these factors.

**3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Accounting standards-setting organizations frequently issue new or revised accounting rules. We regularly review all new pronouncements to determine their impact, if any, on our financial statements. No pronouncements materially affecting our financial statements have been issued since the filing of our Form 10-K for the year ended December 31, 2009.

Table of Contents**4. LOSS PER COMMON SHARE**

Basic net loss per common share is computed by dividing the net loss attributable to common shareholders by the weighted average number of shares of common stock outstanding during the period.

Diluted net loss per common share is computed in the same manner, but also considers the effect of common stock shares underlying the following:

|                                       | September 30,<br>2010 | As of<br>September 30,<br>2009 |
|---------------------------------------|-----------------------|--------------------------------|
| Stock options                         | 2,895,000             | 2,720,000                      |
| Warrants                              | 3,279,469             | 1,342,857                      |
| Convertible Preferred Stock, Series B | 7,523,000             | 4,121,004                      |

All of the common shares underlying the stock options, warrants and convertible preferred stock, Series B above were excluded from diluted weighted average shares outstanding for the three and nine months ended September 30, 2010 and September 30, 2009 because their effects were antidilutive.

**5. OIL AND GAS PROPERTIES**

On February 26, 2010, we sold our 100% working interest in approximately 122,000 acres onshore in the Cook Inlet region of Alaska ( the Alaskan leases ). The leasehold position consisted of two separate target areas, the Point MacKenzie Prospect and the Trading Bay Prospect, which have been selected for oil and gas exploration. 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.

In exchange for our 100% working interest in our Alaskan leases we received the following consideration:

- A cash payment of \$1.0 million.
- A \$4.0 million payment from the first 75% of 8/8ths of the proceeds from any oil and gas production from the Alaskan leases.

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- Subsequent to our receipt of the \$4.0 million payment, we will thereafter receive an overriding royalty interest of 10% of 8/8ths in and to the Alaskan leases issued by the State of Alaska and the Alaska Mental Health Trust, comprised of conventional oil and gas production and coal bed methane production.
  
- The purchaser has agreed to pay all of the costs of maintaining the Alaskan leases at least through the end of the primary terms thereof.

Amounts recorded pursuant to this transaction had been previously classified as unevaluated costs on our December 31, 2009 balance sheet.

### 6. DEBT

As of September 30, 2010 and December 31, 2009 debt consisted of the following:

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
| <b><i>Long Term Portion</i></b>                 |                       |                      |
| Promissory notes (c)                            | \$ 1,415,000          | \$ 1,715,000         |
| Promissory note dated September 30, 2010 (b)    | 350,000               |                      |
| Bank of Oklahoma loan (a)                       | 3,922,847             | 4,372,847            |
| Less discount on promissory notes               | (138,430)             | (101,202)            |
| <b><i>Net long term notes payable</i></b>       | <b>5,549,417</b>      | <b>5,986,645</b>     |
| <b><i>Current Portion</i></b>                   |                       |                      |
| Promissory notes (c)                            | 1,200,000             | 1,000,000            |
| Promissory note dated September 30, 2010 (b)    | 25,000                |                      |
| Bank of Oklahoma loan (a)                       | 600,000               | 600,000              |
| Less discount on promissory notes               | (31,389)              | (50,171)             |
| <b><i>Net current portion notes payable</i></b> | <b>1,793,611</b>      | <b>1,549,829</b>     |
| <b>Total</b>                                    | <b>\$ 7,343,028</b>   | <b>\$ 7,536,474</b>  |

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(a) On March 25, 2010 the Bank of Oklahoma, BOK waived compliance of a minimum tangible net worth requirement related to our \$6,697,847 three year Term Loan Agreement, the terms of the waiver relate to all periods subsequent to December 31, 2009. The terms of the three year loan provide for minimum quarterly principal payments of \$150,000 and interest payable quarterly in arrears at prime plus 4% or LIBOR plus 5.5% at the option of the Company. At September 30, 2010, the interest rate was approximately 6% (LIBOR + 5.5%), and we were in compliance with all covenants of the loan.

(b) On September 30, 2010, we issued a 5-year non-interest bearing note payable in the amount of \$375,000 in connection with the execution of a settlement agreement (Note 11). Payments are due as follows: \$25,000 in March 2011, \$50,000 in October 2011, and \$75,000 each October thereafter until 2015. An imputed interest rate of 10% per annum has been used to record a discount in connection with this note.

(c) On August 31, and September 1, 2010, we partially repaid a promissory note in the amount of \$50,000, we renewed two promissory notes in the amount of \$100,000 and \$30,000 and renewed one promissory note in the amount of \$50,000. Prior to the note renewals we repaid all outstanding accrued interest on the notes. The terms of the renewed notes payable remain materially consistent those previously issued. In connection with the issuance of these notes we issued a total of 23,000 warrants to purchase our common stock (Note 10).

## 7. INCOME TAXES

The effective income tax rates for the nine month periods ended September 30, 2010 were negligible, primarily due to adjustments to the valuation allowance on deferred tax assets.

## 8. STOCKHOLDERS EQUITY

On September 30, 2010, we completed a sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at \$0.48 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 per share for a period of three years. The total aggregate purchase price for the units sold was \$1,725,600, and represented the sale of 3,595,000 common shares and 1,797,500 warrants (Note 10). We granted piggyback registration rights to the investors with respect to the shares of common stock and common stock issuable upon exercise of the warrants which the investors acquired in the transaction.

## 9. COMMON STOCK OPTIONS

On July 19, 2010, we modified the original exercise price for 740,000 stock options from \$4.28 as issued on June 27, 2008 to \$0.50 per share. We considered ASC 718 *Share Based Compensation* when recording the impact of this re-pricing. The additional compensation cost to be recognized in connection with the re-pricing of these options is \$113,882 and will be recognized over the requisite service periods of the underlying options.

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On July 19, 2010, we granted a total of 195,000 stock options to five non-management directors at an exercise price of \$0.50 per share. These options will vest ratably over five years pursuant to the terms of the 2004 Stock Option and Appreciation Rights Plan. The grant-date fair value of the options was \$59,984.

The weighted average fair value of these options was calculated under the Black-Scholes pricing model. We estimated the dividend yield at 0% considering that we have not historically paid dividends on our common stock, nor do we expect to pay dividends in the foreseeable future. Volatility estimates represent the historic trading volatility underlying our common stock at the date of grant. Volatility used to value the option grant and re-pricing was 112%. We estimated risk-free interest rates based on the U.S. Treasury yield curve at the date of grant to be 0.95%. Expected lives are based on our historic experience with employee option exercise behavior and consider the vesting period and the contractual lives of the related options. Expected lives used in our calculations were 2.94 years and 5.0 years for the re-pricing and the grant of new options respectively. As of September 30, 2010 a total of 2,895,000 options were outstanding, of which 2,178,000 were exercisable. The weighted average exercise price for outstanding options as of September 30, 2010 was \$1.59.

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**10. COMMON STOCK WARRANTS**

On September 1, 2010 we issued 23,000 warrants to purchase our common shares at \$0.50 in conjunction with the renewal of three of our promissory notes payable (Note 6). The warrants expire as of August 31, 2013. The total fair value of the warrants as calculated using the Black - Scholes pricing model was not material to our financial statements.

On September 30, 2010, we issued 1,797,500 warrants to purchase our common shares at \$0.75 in conjunction with a private placement of our common stock (Note 8). The warrants expire on September 30, 2013. The total fair value of the warrants as calculated using the Black-Scholes pricing model was \$415,323. Key assumptions used in valuing the warrants included: an estimated dividend yield of 0%, volatility of 92%, an estimated risk-free interest rate based on the U.S. Treasury yield curve at the date of grant of 0.64% and an expected life of three years.

As of September 30, 2010 we have reserved 3,279,469 shares of common stock for the exercise of our stock purchase warrants.

**11. COMMITMENTS AND CONTINGENCIES**

**Legal Settlement** - On September 30, 2010, we entered into a settlement agreement with Devon Energy Production Company L.P. ( Devon ) related to over-riding royalty interests and related revenue amounts claimed by Devon. Prior to the settlement we had accrued \$767,635 as royalties payable to Devon. In connection with the settlement agreement we issued a 5-year non-interest bearing note in the amount of \$375,000, (Note 6) and agreed to pay \$300,000 on October 1, 2010. We have recorded a gain on the settlement of \$182,751 which has been included in other income on our unaudited consolidated statement of operations. Of the gain recognized \$90,116 relates to imputed interest which will be recognized as expense over the term of the note.

**Employment Agreements** - On March 31, 2010 Chief Financial Officer, J. Chris Steinhauser with whom we had entered into an employment contract dated April 27, 2009, resigned from his positions as the Chief Financial Officer, Vice President of Finance and Secretary of the Company.

On April 26, 2010 we extended our Vice President of Exploration, David V. Creel s employment agreement through December 31, 2010; all other provisions per the terms of the original employment agreement remain unchanged.

**Office Lease** - In February, 2010, we entered into a lease for our principal executive office. The terms of the lease provide for an eighty-four (84) month term. Minimum annual rentals due under this agreement as of September 30, 2010 are as follows:

|      |         |
|------|---------|
| 2010 | 35,708  |
| 2011 | 145,635 |



|            |              |
|------------|--------------|
| 2012       | 149,836      |
| 2013       | 154,037      |
| 2014       | 158,238      |
| Thereafter | 385,091      |
| Total      | \$ 1,028,545 |

## 12. SUBSEQUENT EVENTS

On October 1, 2010 we paid \$300,000 in accrued settlement liabilities recorded in connection with a settlement agreement executed with Devon on September 30, 2010.

On October 8, 2010, we completed the sale of an additional 100,000 units through our private placement of common shares (Note 8).

On October 31, 2010 a note payable in the amount of \$720,000 matured and became due. We are currently negotiating its renewal.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis should be read in conjunction with accompanying financial statements and related notes included elsewhere in this report. It 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. Our actual results could differ materially from those discussed in these forward looking statements.*

*Factors that could cause or contribute to such differences include, but are not limited to, market prices for natural gas and oil, economic and competitive conditions, regulatory changes, estimates of proved reserves, potential failure to achieve production from development drilling projects, capital expenditures and other uncertainties, as well as those factors discussed below and elsewhere in this report, particularly in*

*Risk Factors, all of which are difficult to predict and which expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. In light of these risks, uncertainties and assumptions, the forward looking events discussed may not occur. We do not have any intention or obligation to update forward-looking statements included in this report after the date of this report, except as required by law.*

**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 255,506 gross (40,540 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.

Since 2003, substantially all of our revenue has been generated from natural gas sales derived from the Magness #1, the Fannin #1, and the Mitchell #1 wells in 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 the remainder of 2010. We expect the majority of our capital expenditures for the remainder of 2010 and in 2011 will be for the Madisonville Project and gas processing plant.

**Results of Operations**

The financial information with respect to the nine months ended September 30, 2010 and 2009 as discussed below is unaudited. In the opinion of management, such information contains all adjustments consisting only of normal recurring accruals, necessary for a fair presentation of the results for such periods. The results of operations for interim periods are not necessarily indicative of the results of operations for the full fiscal years.

|   | Nine Months Ended                    |                                      |
|---|--------------------------------------|--------------------------------------|
|   | September 30,<br>2010<br>(unaudited) | September 30,<br>2009<br>(unaudited) |
| <b>Consolidated Statement of Operations:</b>      |                                      |                                      |
| <b>Revenues</b>                                   | \$ 2,647,972                         | \$ 2,919,923                         |
| <b>Plant operating</b>                            | 3,160,138                            | 3,749,484                            |
| <b>Lease operating</b>                            | 264,052                              | 478,187                              |
| <b>General and administrative</b>                 | 1,776,514                            | 2,026,821                            |
| <b>Impairment expense</b>                         |                                      | 939,703                              |
| <b>Depreciation and depletion</b>                 | 559,862                              | 1,159,050                            |
| <b>Loss from operations</b>                       | (3,112,594)                          | (5,433,322)                          |
| <b>Net loss</b>                                   | (3,451,075)                          | (4,502,686)                          |
| <b>Net loss applicable to common shareholders</b> | \$ (3,788,683)                       | \$ (4,571,269)                       |

### Revenue and Operating Trends

We have developed an onsite plan to treat and remove impurities from the Madisonville Project natural gas in order to meet pipeline-quality specifications. The Madisonville Project is located in East Texas. In 2003, the construction and installation of a natural gas treatment plant with a designed capacity of 18 million cubic feet of gas per day ( MMcf/d ) and associated pipeline and gathering facilities were completed. The treatment plant and associated gathering facilities were owned by an unaffiliated third party.

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In 2005 we secured a commitment from the Madisonville Gas Plant ( MGP ) to install and make operational additional treating facilities capable of treating 50 MMcf/d, which combined with the capacity of the current in-service treating facilities will represent a total designed treating capacity of 68 MMcf/d for the Madisonville treatment plant. In early November 2007, MGP began testing the additional treatment facilities by accepting 20 MMcf/d at the inlet. Subsequently in December 2007, MGP suspended the operations of the additional treatment facilities in order to make modifications to more effectively deal with the presence of diamondoids in the gas stream produced from the Rodessa Formation.

During 2008, MGP analyzed various options for removing the diamondoids; however, they did not complete the necessary plant system modifications. On December 31, 2008, we purchased the gas treatment plant (the 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 LLC ( MM ). We expect to complete installation of the system modifications required in the new plant by the end of 2011. In the meantime, the existing, in service portion of the plant continues to operate with a design capacity of approximately 18 MMcf/d of inlet gas.

While there can be no assurance, our goal is to make the necessary upgrades to the plant and increase the production rates from our wells which may result in higher net production and increased revenue during the remainder of 2010 as compared to 2009 and prior periods. To accomplish the plant upgrades, we will need to raise additional capital. Due to the unsettled state of the capital markets, funds may not be available, or may not be available on favorable terms.

During the nine months ended September 30, 2010, we did not generate sufficient revenues to cover the plant operating expenses and lease operating expenses in our Madisonville Project. This was due to low production volumes, high shrinkage rates in the gas plant and low natural gas prices. Subject to capital availability, we plan to workover the Mitchell #1 well and to frac and connect via gathering line the Wilson #1 well. Once the above production enhancements are completed, the Company expects the combined Rodessa formation production to increase from current rates. The Company hopes to continue to realize both intermediate and long term cost and operating efficiencies by consolidating the upstream and midstream portions of Madisonville under common ownership. Despite the challenges of the current environment, we accomplished the necessary goal of vertically integrating our position in the Madisonville field. We continue to explore other longer term cost saving and efficiency measures in the plant.

**Industry Overview for the nine months ended September 30, 2010**

Natural gas prices have been very volatile during 2010 and 2009 due to supply concerns earlier in 2009, and more recently due to recession concerns arising from the current global financial crisis and a resultant decline in demand for natural gas.

**Company Overview for the nine months ended September 30, 2010**

Our net loss applicable to common shareholders for the nine months ended September 30, 2010 was \$3,788,683. 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 September 30, 2010 of \$41,961,602. All of our natural gas sales for nine months ended September 30, 2010 were derived from our Madisonville Project, from three producing wells, the UMC Ruby Magness #1 well (the Magness Well ), the Angela Farris Fannin #1 well (the Fannin Well ), and the Mitchell #1 well (the Mitchell Well ).

**Comparison of Results of Operations for the three months ended September 30, 2010 and 2009**

During the three months ended September 30, 2010, we had gross natural gas revenues of \$641,603. During this period the sales of gas from our wells amounted to 164,220 Mcf and our average natural gas price realized was \$3.91 per Mcf. During the three months ended September 30, 2009 we had gross natural gas revenues of \$973,653. Our natural gas sales for the three months ended September 30, 2009 were 374,697 Mcf and our average natural gas price realized was \$2.59 per Mcf. Revenues decreased during the three months ended September 30, 2010 as compared to the prior year period due to a 56% decrease in production volumes related to normal decline curves as well as treatment plant downtime partially offset by a 51% increase in natural gas prices.

During the three months ended September 30, 2010, we incurred plant operating expenses of \$973,189. During the three months ended September 30, 2009, the plant operating expense was \$1,396,346. The decrease in plant operating expense of \$423,157 or 30% was primarily attributable to cost cutting measures at our facility. We anticipate our future plant operating expenses will remain fairly consistent with amounts recorded in the current three month period.

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During the three months ended September 30, 2010, we incurred lease operating expenses of \$69,469. Our net average lifting cost for the 2010 period was \$0.42 per Mcf. During the three months ended September 30, 2009, we incurred lease operating expenses of \$93,773. Our net average lifting cost for the 2009 period was \$0.25 per Mcf. The average lifting cost per Mcf in 2010 was higher due to lower production volumes. The gross lease operating expense for three months ended September 30, 2010 was lower than the same prior year period due mainly to a reduction of ad valorem property taxes applicable to the wells.

General and administrative ( G&A ) expenses for the three months ended September 30, 2010 were \$539,492 compared to \$561,227 for the three months ended September 30, 2009. This represents a \$21,735 or 4% decrease over the prior period. The lower G&A expense incurred in 2010 was attributable primarily to reduced salary expense.

For the three months ended September 30, 2010, the impairment expense was \$0 versus \$939,703 for the same period of 2009. The 2009 impairment write-downs were attributable to the costs of certain wells drilled on our Canadian oil and gas properties which were deemed to be fully evaluated during the latest quarter resulting in ceiling test write downs. We determined during the quarter that the reserve potential associated with these wells did not merit further expenditures.

Depreciation, depletion and amortization expense ( DD&A ) for the three months ended September 30, 2010 was \$163,380 as compared to \$432,559 in the corresponding 2009 period. These amounts primarily represent amortization of the oil and gas properties. The 62% decrease was attributable primarily to lower depletion expense resulting from the lower value of oil and gas properties which decreased as the result of ceiling test write-offs in the US cost pool recorded during the fiscal year ended December 31, 2009 as well as lower production volumes.

Loss from operations totaled \$1,103,927 for the three months ended September 30, 2010 as compared to \$2,449,955 for the three months ended September 30, 2009. The decrease in the loss from operations was primarily attributable to lower operating and administrative expenses, reduced depreciation and depletion expenses, and impairments recorded in the corresponding prior period.

During the three months ended September 30, 2010 and 2009, we incurred interest expense of \$173,103 and \$163,645, respectively.

During the three months ended September 30, 2010, we realized a gain in connection with the settlement of previously accrued liabilities of \$182,751. During the three months ended September 30, 2009, we realized a gain on the sale of equipment of \$1,488,687 relating to the sale of idle equipment in our Madisonville Plant.

**Comparison of Results of Operations for the nine months ended September 30, 2010 and 2009**

During the nine months ended September 30, 2010, we had gross natural gas revenues of \$2,647,972. During this period our sales of natural gas from our wells was 611,696 Mcf at an average price of \$4.33 per Mcf. During the nine months ended September 30, 2009, we had gross natural gas revenues of \$2,919,923. Our sales of natural gas for the nine months ended September 30, 2009 were 985,563 Mcf at an average price of \$2.96 per Mcf. Revenues decreased in the nine months ended September 30, 2010 as compared to the prior year period due to 38% lower production volumes related to normal decline curves as well as treatment plant downtime partially offset by 46% higher natural gas prices.

During the nine months ended September 30, 2010, we incurred plant operating expenses of \$3,160,138, as compared to \$3,749,484 in the same prior year period. The decrease of \$589,346 or 16% was attributable to cost cutting measures comprised primarily of reduced costs associated with field personnel, chemicals, electricity and ad valorem taxes. We anticipate our future plant operating expenses will remain fairly consistent with amounts recorded in the current nine month period.

During the nine months ended September 30, 2010, we incurred lease operating expenses of \$264,052. Our average lifting cost for the 2010 period was \$0.43 per Mcf. During the nine months ended September 30, 2009, we incurred lease operating expenses of \$478,187. Our average lifting cost for the 2009 period was \$0.49 per Mcf. The average lifting cost per Mcf in 2010 was lower due to cost reductions associated with field personnel, insurance costs, and workover costs.

General and administrative ( G&A ) expenses for the nine months ended September 30, 2010 were \$1,776,514 compared to \$2,026,821 for the nine months ended September 30, 2009. This represents a \$250,307 or 12% decrease over the prior year period. The lower G&A expense incurred in 2010 was due primarily to lower expenses incurred in connection with the issuance of our 2009 annual report, decreased salaries, decreased consulting expense, and lower insurance cost.

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For the nine months ended September 30, 2010, the impairment expense was \$0 versus \$939,703 for the same period of 2009. The 2009 impairment write-downs were due to cost of certain wells drilled on our Canadian oil and gas properties which were deemed to be fully evaluated during the latest quarter resulting in ceiling test write downs.

Depreciation, depletion and amortization expense ( DD&A ) for the nine months ended September 30, 2010 was \$559,862 as compared to \$1,159,050 in the same period in 2009, these amounts primarily represent amortization of the oil and gas properties for the nine months ended September 30, 2010 and 2009, respectively. The 52% decrease was due to lower net production in the nine months ended September 30, 2010 as well as lower value of oil and gas properties resulting from ceiling test write-offs in the US cost pool recorded during the fiscal year ended December 31, 2009.

During the nine months ended September 30, 2010 and 2009, we incurred interest expense of \$522,011 and \$563,991, respectively. The lower interest expense in 2010 was primarily due to one-time loan fee paid in 2009.

During nine months ended September 30, 2010, we realized a gain in connection with the settlement of previously accrued liabilities in amount of \$182,751. During the nine months ended September 30, 2009, we realized a gain on the sale of equipment of \$1,488,687 relating to the sale of idle equipment in our Madisonville Plant.

**Recent Developments**

In February, 2010, we entered into a lease for our principal executive office. The terms of the lease provide for an eighty-four (84) month term. Minimum annual rentals due under this agreement as of September 30, 2010 are as follows:

|            |              |
|------------|--------------|
| 2010       | 35,708       |
| 2011       | 145,635      |
| 2012       | 149,836      |
| 2013       | 154,037      |
| 2014       | 158,238      |
| Thereafter | 385,091      |
| Total      | \$ 1,028,545 |

On February 26, 2010, we sold our 100% working interest in approximately 122,000 acres onshore in the Cook Inlet region of Alaska ( the Alaskan leases ). The leasehold position consisted of two separate target areas, the Point MacKenzie Prospect and the Trading Bay Prospect, which have been selected for oil and gas exploration. 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.

In exchange for our 100% working interest in our Alaskan leases we received the following consideration:



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- A cash payment of \$1.0 million.
- A \$4.0 million payment from the first 75% of 8/8ths of the proceeds from any oil and gas production from the Alaskan leases.
- Subsequent to our receipt of the \$4.0 million payment, we will thereafter receive an overriding royalty interest of 10% of 8/8ths in and to the Alaskan leases issued by the State of Alaska and the Alaska Mental Health Trust, comprised of conventional oil and gas production and coal bed methane production.
- The purchaser has agreed to pay all of the costs of maintaining the Alaskan leases at least through the end of the primary terms thereof.

On October 21, 2010, the LEA #1 exploration well was spudded to evaluate a conventional oil and gas prospect identified and developed by us.

On March 31, 2010, J. Chris Steinhauser resigned from his positions as the Chief Financial Officer, Vice President of Finance and Secretary of the Company to pursue other interests. The resignation notification submitted by Mr. Steinhauser did not reference any disagreement with the Company on any matter relating to the Company's operations, policies and practices.

On April 26, 2010 we extended our Vice President of Exploration, David V. Creel's employment agreement through December 31, 2010, all other provisions per the terms of the original employment agreement remain unchanged.

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On July 19, 2010, we modified the original exercise price for 740,000 stock options from \$4.28 as issued on June 27, 2008 to \$0.50 per share.

On July 19, 2010, we granted a total of 195,000 stock options to five non-management directors at an exercise price of \$0.50 per share. These options will vest ratably over five (5) years pursuant to the terms of the 2004 Stock Option and Appreciation Rights Plan.

On September 1, 2010, we issued 23,000 warrants to purchase our common shares at \$0.50 in conjunction with the renewal of certain promissory notes payable. The warrants expire on August 31, 2013.

On September 30, 2010, we entered into a legal settlement with Devon in connection with the settlement we issued a non-interest note in the amount of \$375,000 payable over 5 years, and agreed to pay \$300,000 on October 1, 2010. We have recorded a gain in the amount of \$182,751 in connection with this settlement.

On September 30, 2010, we completed a sale through a private placement transaction to certain institutional and individual accredited investors. The total placement consisted of 3,595,000 units priced at \$0.48 per unit. 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 per share for a period of three years. The total aggregate purchase price for the units sold was \$1,725,600, and represented the sale of 3,595,000 common shares and 1,797,500 warrants.

In October 2010, we completed the sale of an additional 100,000 units for proceeds of \$48,000.

On October 31, 2010 a note payable in the amount of \$720,000 matured and became due. We are currently negotiating its renewal.

**Liquidity and Capital Resources**

We had a working capital deficit of \$2,062,475 at September 30, 2010 versus \$1,174,225 at December 31, 2009. Our working capital deficit increased during nine months ended September 30, 2010 due primarily to losses incurred in connection with natural gas operations, the payment of dividends on our preferred shares, and the repayments of debt obligations.

Our cash balance at September 30, 2010 was \$1,889,965 compared to a cash balance of \$2,429,891 at December 31, 2009. The change in our cash balance is summarized as follows:

|                                   |    |           |
|-----------------------------------|----|-----------|
| Cash balance at December 31, 2009 | \$ | 2,429,891 |
|-----------------------------------|----|-----------|

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|  |    |             |
|--|----|-------------|
| Sources of cash:                             |    |             |
| Cash provided by investing activities        |    | 826,119     |
| Cash provided by financing activities        |    | 834,102     |
| Total sources of cash including cash on hand |    | 4,090,112   |
| Uses of cash:                                |    |             |
| Cash used in operating activities            |    | (2,200,147) |
| Total uses of cash                           |    | (2,200,147) |
| Cash balance at September 30, 2010           |    |             |
|  | \$ | 1,889,965   |

Net cash used in operating activities of \$2,200,147 and \$3,350,834 for the nine months ended September 30, 2010 and 2009 respectively are attributable to our net income 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 principally through issuances of common shares, preferred shares, promissory notes and common share purchase warrants issued in private placements and an initial public offering. These financings are summarized as follows:

|  | Nine Months Ended  |                    |
|--|--------------------|--------------------|
|  | September 30, 2010 | September 30, 2009 |
| Proceeds from sale of common shares            | \$ 1,725,600       | \$                 |
| Proceeds from sale of Preferred Series B       |                    | 3,031,710          |
| Proceeds from the issuance of promissory notes |                    | 1,177,000          |
| Repayment of notes payable                     | (550,000)          | (1,707,000)        |
| Payments of loan fee                           | (7,200)            | (15,200)           |
| Payment of preferred stock dividend            | (334,298)          |                    |
| Net cash provided by financing activities      | \$ 834,102         | \$ 2,486,510       |

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The net proceeds of our equity financings have been primarily used to satisfy working capital requirement and invest in oil and natural gas properties and the gas treatment plant totaling \$138,164 and \$761,449 for the nine months ended September 30, 2010 and 2009, respectively.

Net cash provided by investing activities of \$826,119 for the nine months ended September 30, 2010 related to net proceeds from the dispositions of oil and gas properties offset by additions to our oil and gas properties. Net cash provided by investing of \$1,738,551 for the nine months ended September 30, 2009 related to dispositions of idle equipment offset by additions to our oil and gas properties and gas processing plant.

Our current cash and cash equivalents and anticipated cash flow from operations may not be sufficient to meet our working capital, and capital expenditure requirements for the foreseeable future. Additional financing is required to carry out our business plan. Selling certain idle equipment at the new Madisonville Treatment plant will be our first preference in raising the capital needed. See Outlook for 2010 and 2011 Capital for a description of our expected capital expenditures for the remainder of 2010. 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. We periodically borrow funds through the issuance of short and long term promissory notes to finance our activities.

As of September 30, 2010, we have a working capital deficit of \$2,062,475, and for the nine months ended September 30, 2010, our cash used in operating activities amounted to \$2,200,147. Further, we estimate our minimum investment needs during the remainder of 2010 and 2011 to be \$3,207,000 related to our natural gas processing plant and our natural gas properties within the Madisonville field and our California properties. Due to the current natural gas commodity price environment, our results of natural gas operations amounted to a loss of \$3,112,594 for the nine months ended September 30, 2010. Further, we have maturing debt obligations, debt service and dividend requirements that will require cash payments. We hold working interests in undeveloped leases, seismic options, lease options and foreign concessions and we have participated in seismic surveys and the drilling of test wells on undeveloped properties. We plan further leasehold acquisitions and seismic operations for the remainder of 2010 and future periods. Exploratory and developmental drilling is scheduled during 2010 and future periods on our undeveloped properties. We are attempting to raise additional cash through the sale or farmout of certain of our unproved properties. We also need to raise additional equity or enter into new borrowing arrangements to finance our operating deficit and our continued participation in planned activities. If additional financing is not available, we will be compelled to reduce the scope of our business activities. If we are unable to fund our operating cash flow needs and planned capital investments, it will be necessary to farm-out our interest in proposed wells, sell a portion of our interest in prospects, sell a portion of our interest in our producing oil and gas properties, sell all or a portion of our gas plant, reduce general and administrative expenses, or a combination of all of these factors.

As discussed in the Outlook for 2010 and 2011 Capital, we are forecasting capital expenditures of \$3.2 million during the remainder of 2010 and 2011. We will need to obtain adequate sources of cash to fund these anticipated capital expenditures and to follow through with our plans for continued investments in oil and gas properties. Our success, in part, depends on our ability to generate additional financing and/or farmout certain of our projects. Additionally, as a result of the current economic downturn, the Company may have difficulty raising sufficient funds to meet our projected funding requirements. The tight credit markets and downturn in the stock market may impair our ability to generate additional financing.

We will continue to analyze the potential effects of the global economic downturn on our business and prospects and our ability to generate additional financing.

**Contractual Obligations**

We have assumed various contractual obligations and commitments in the normal course of our operations and financing activities. We have described these obligations and commitments in our Management's Discussion and Analysis of Financial Condition and Results of Operations section in our Annual Report on Form 10-K for the year ended December 31, 2009. There were no material changes to our contractual obligations since December 31, 2009 except items described in Recent Developments .

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**Off Balance Sheet Arrangements**

From time to time, we enter into off-balance sheet arrangements and transactions that can give rise to off-balance sheet obligations. As of September 30, 2010, our off-balance sheet arrangements and transactions include operating lease agreements. 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. 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, or other gas financial instruments in 2010.

**Outlook for 2010 and 2011 Capital**

Depending on capital availability, we are forecasting capital spending of up to approximately \$3,207,000 during the remaining year 2010 and the calendar year of 2011, allocated as follows:

1. Madisonville Project, Madison County, Texas Approximately \$3,028,000 may be expended in the Madisonville Field area as follows: \$1,433,000 million for capital maintenance and repair on new gas treatment plant; \$945,000 toward the fracture stimulation and hook up costs of the Wilson Well; and \$650,000 for the Mitchell well workover.
2. California Approximately \$179,000 to be utilized for land and 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 all of 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 the Company achieving our 2010 and 2011 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. Higher crude prices could also help keep natural gas prices high by keeping alternative fuels, such as heating oil and residual fuel, expensive.

### **Impact of Inflation & Changing Prices**

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 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 2010 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. We refer you to the corresponding section in Part II, Item 7 and the notes to the consolidated financial statements of our Annual Report on Form 10-K for the year ended December 31, 2009 for the description of critical accounting policies and estimates.

### **Risks and Uncertainties**

There are a number of risks that face participants in the U.S., Canadian 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** in our Annual Report on Form 10-K for the year ended December 31, 2009 for a description of the principal risks faced by us.

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**Item 3. 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.

**Interest Rate Risk.** Interest rates on future debt offerings could be higher than current levels, causing our financing costs to increase accordingly. We do not currently utilize hedging contracts to protect against interest rate risk.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our President, Chief Executive Officer and Chairman and our interim Chief Financial Officer, 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 September 30, 2010. Based on this evaluation, we have concluded that, as of September 30, 2010, 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 interim Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

From time to time, we are party to litigation or other legal and administrative proceedings that we consider to be a part of the ordinary course of our business. On September 11, 2009, our subsidiary, Redwood Energy Production, L.P. filed an Original Petition for Declaratory Judgment against Devon Energy Production Company L.P. ( Devon ) regarding certain overriding royalty interests and related revenue amounts claimed by Devon. The Company previously accrued all amounts owed pursuant to these overriding royalty interests as royalty owners payable. On September 30, 2010, we entered into a settlement agreement with Devon.

**Item 1A. Risk Factors.**

As of the date of this filing, there have been no material changes from the risk factors previously disclosed in our Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009, referred to as our 2009 Annual Report. An investment in our securities involves various risks. When considering an investment in our company, you should consider carefully all of the risk factors described in our 2009 Annual Report. These risks and uncertainties are not the only ones facing us and there may be additional matters that we are unaware of or that we currently consider immaterial.

**Item 2. Unregistered Sales of Securities and Use of Proceeds.**

**Unregistered Sales of Securities**

On September 30, 2010, we completed a sale through a private placement transaction to certain institutional and individual accredited investors. Units were priced at \$0.48 per unit, and each unit consists 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 per share for a period of three years. The total aggregate purchase price for the units sold was \$1,725,600, and represented the sale of 3,595,000 common shares and 1,797,500 warrants. We granted piggyback registration rights to the investors with respect to the shares of common stock and common stock issuable upon exercise of the Warrants which the investors acquired in the transaction. The Company paid no fees or commissions in connection with the sale of the units.

The sale of the Securities was undertaken without registration under the Securities Act in reliance upon an exemption from the registration requirements of the Securities Act set forth in Sections 4(2) thereunder. The investors each qualified as an accredited investor within the meaning of Rule 501(a) of Regulation D. 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 Securities and Exchange Commission 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.

**Use of Proceeds**

Proceeds realized will be spent in the following order of priority:

Proceeds from this offering will be used by the Company

1. Debt Service
2. General Working Capital
3. Madisonville Project, Madison County
4. California Project

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.

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**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Submission of Matters to a Vote of the Security Holders.**

Not applicable.

**Item 5. Other Information.**

Not applicable

**Item 6. Exhibits**

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EXHIBIT INDEX

**Exhibit  
Number**

|          |  |
|----------|--|
| 31.1     | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.   |
| 31.2     | Rule 13a-14(a)/15d-14(a) Certification of Interim Chief Financial Officer.   |
| 32.1 (1) | Certification of Chief Executive Officer and Interim Chief Financial Officer of GeoPetro Resources Company pursuant to 18 U.S.C. § 1350. |

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(1) Furnished herewith

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 15, 2010.

**GEOPETRO RESOURCES COMPANY**

By: /s/ Stuart J. Doshi  
Stuart J. Doshi  
Chairman of the Board of Directors, President and  
Chief Executive Officer

By: /s/ Paul D. Maniscalco  
Paul D. Maniscalco  
Interim Chief Financial Officer, Principal Accounting  
Officer