

GEOPETRO RESOURCES CO
Form 10-Q
May 15, 2007

**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 March 31, 2007

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)

One Maritime Plaza, Suite 700
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 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

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There were 29,547,075 shares of no par value common stock outstanding on May 15, 2007.

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 1A. Risk Factors

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

Item 3. Defaults Upon Senior Securities

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

Item 5. Other Information

Item 6. Exhibits

SIGNATURES

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

**GEOPETRO RESOURCES COMPANY
INDEX TO FINANCIAL STATEMENTS**

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Consolidated Balance Sheets as of March 31, 2007 (unaudited) and December 31, 2006

Consolidated Statements of Operations for the three months ended March 31, 2007 and March 31, 2006 (unaudited)

Consolidated Statements of Cash Flows for three months ended March 31, 2007 and March 31, 2006 (unaudited)

Notes to Consolidated Financial Statements

3

GEOPETRO RESOURCES COMPANY

CONSOLIDATED BALANCE SHEETS

| | March 31, 2007 (Unaudited) | December 31, 2006 |
|--|-------------------------------|----------------------|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 987,780 | \$ 734,561 |
| Accounts receivable oil and gas sales | 776,308 | 394,337 |
| Accounts receivable other | 70,400 | 115,770 |
| Related party notes receivable | 1,000,000 | 1,000,000 |
| Prepaid expenses | 63,938 | 121,413 |
| Total current assets | 2,898,426 | 2,366,081 |
| Oil and Gas Properties, at cost (full cost method): | | |
| Unevaluated properties | 4,808,978 | 4,503,481 |
| Evaluated properties | 44,374,441 | 43,701,510 |
| Less accumulated depletion and impairments | (12,129,208 |) (11,557,257 |
| Net oil and gas properties | 37,054,211 | 36,647,734 |
| Furniture, Fixtures and Equipment, at cost, net of depreciation | 36,556 | 41,547 |
| Other Assets deposits and other noncurrent assets | 6,867 | 6,116 |
| Total Assets | \$ 39,996,060 | \$ 39,061,478 |
| <u>LIABILITIES AND SHAREHOLDERS EQUITY</u> | | |
| Current Liabilities: | | |
| Trade payables | \$ 1,231,328 | \$ 654,427 |
| Short term notes payable | 1,773,267 | 982,301 |
| Interest payable | 24,044 | 73,205 |
| Dividends payable | | 133,438 |
| Production taxes payable | 138,834 | 662,905 |
| Other taxes payable | 3,616 | 9,206 |
| Royalty owners payable | 1,070,977 | 951,271 |
| Net profits interest payable | 248,321 | 137,589 |
| Total current liabilities | 4,490,387 | 3,604,342 |
| Asset Retirement Obligations | 50,020 | 48,842 |
| Commitments and Contingencies (Note 8) | | |
| Shareholders Equity: | | |
| Series AA preferred stock, no par value; 5,000,000 shares authorized, 0 shares after conversion on March 28, 2007 and 1,890,710 shares issued and outstanding at December 31, 2006. Liquidation value was \$6,750,923 at December 31, 2006 | | 5,924,068 |
| Common stock, no par value; 100,000,000 shares authorized 29,359,718 and 27,423,758 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively | 46,092,896 | 40,112,265 |
| Additional paid-in capital | 1,091,791 | 918,381 |
| Treasury stock, at cost; 1,257,043 shares held at March 31, 2007 and December 31, 2006, respectively | (1,152,435 |) (1,152,435 |
| Accumulated deficit | (10,576,599 |) (10,393,985 |
| Total shareholders equity | 35,455,653 | 35,408,294 |
| Total Liabilities and Shareholders Equity | \$ 39,996,060 | \$ 39,061,478 |

See accompanying notes to these consolidated financial statements.

GEOPETRO RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Three Months Ended March 31, | |
|--|---|-----------------------------|
| | 2007 (Unaudited) | 2006 (Unaudited) |
| Revenues | | |
| Oil and gas sales | \$ 1,823,342 | \$ 1,498,453 |
| Costs and expenses: | | |
| Lease operating expense | 427,277 | 266,223 |
| General and administrative | 759,356 | 548,864 |
| Net profits interest | 184,204 | 158,603 |
| Depreciation and depletion expense | 576,942 | 405,197 |
| Total costs and expenses | 1,947,779 | 1,378,887 |
| Income (loss) from operations | (124,437) | 119,566 |
| Other Income and (Expense): | | |
| Interest expense | (86,182) | (48,549) |
| Interest income | 28,005 | 434 |
| Total other expense | (58,177) | (48,115) |
| Net Income (Loss) Before Taxes | (182,614) | 71,451 |
| Income tax expense | | (13,991) |
| Net Income (Loss) After Taxes | (182,614) | 57,460 |
| Preferred stock dividend | | (130,537) |
| Net Loss Available to Common Shareholders | \$ (182,614) | \$ (73,077) |
| Earnings (Loss) per Share: | | |
| Basic | \$ (0.01) | \$ (0.00) |
| Diluted | \$ (0.01) | \$ (0.00) |
| Weighted Average Number of Common Shares Outstanding: | | |
| Basic | 27,526,895 | 21,839,538 |
| Diluted | 27,526,895 | 21,839,538 |

See accompanying notes to these consolidated financial statements.

GEOPETRO RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Months Ended March 31, 2007 (Unaudited) | March 31, 2006 (Unaudited) |
|---|--|----------------------------------|
| Cash Flows From Operating Activities: | | |
| Net income | \$ (182,614) | \$ 57,460 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and depletion | 576,942 | 405,197 |
| Stock compensation expense | 34,935 | 16,616 |
| Non-cash interest expense | 38,742 | 35,398 |
| Asset retirement obligations | 707 | 484 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (381,971) | 233,045 |
| Decrease in other receivables | 45,370 | 6,154 |
| (Increase) decrease in prepaid expenses | 57,475 | (91,433) |
| Deposits and other noncurrent assets | (750) | |
| Increase in trade payables | 576,900 | 3,129,718 |
| Increase (decrease) in interest payable | (49,162) | 13,151 |
| Decrease in dividends payable | (133,438) | (2,901) |
| Decrease in production taxes payable | (524,071) | (207,574) |
| Decrease in other taxes payable | (5,590) | (21,072) |
| Increase (decrease) in royalty owners payable | 119,707 | (89,276) |
| Increase (decrease) in net profit interest payable | 110,732 | (90,955) |
| Increase in asset retirement obligations | 471 | |
| Net cash provided by operating activities | \$ 284,385 | \$ 3,394,012 |
| Cash Flows from Investing Activities: | | |
| Oil and gas property expenditures | (945,895) | (6,423,659) |
| Net cash used in investing activities | (945,895) | (6,423,659) |
| Cash Flows from Financing Activities: | | |
| Increase in deposit in trust | | (10,867,849) |
| Increase in restricted cash | | (2,000,075) |
| Proceeds from sale of common shares, option and warrant exercises, net | 71,729 | 14,453,657 |
| Payments of preferred dividends | | (130,537) |
| Proceeds from promissory notes, net | 1,000,000 | 1,000,000 |
| Payments of loan fee | (57,000) | (30,000) |
| Repayments of promissory notes | (100,000) | |
| Deferred offering costs | | 881,159 |
| Net cash provided by financing activities | 914,729 | 3,306,355 |
| Net Increase in Cash and Cash Equivalents: | 253,219 | 276,708 |
| Cash and Cash Equivalents: | | |
| Beginning of period | 734,561 | 914,826 |
| End of period | \$ 987,780 | \$ 1,191,534 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | \$ 47,440 | \$ |
| Cash paid for income taxes | \$ | \$ (13,991) |

See accompanying notes to these consolidated financial statements.

GEOPETRO RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited Prepared by Management)

1. ORGANIZATION AND NATURE OF OPERATIONS:

These financial statements are included herein pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Company believes the disclosures made are adequate to make the information not misleading and recommend that these condensed financial statements be read in conjunction with the financial statements and notes included in our Form 10-K for the year ended December 31, 2006. In the opinion of management, the financial statements herein contain 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 year.

GeoPetro GeoPetro Resources Company (GeoPetro , Company , we or us) was originally incorporated as GeoPetro Company under the laws of the State of Wyoming in 1994 to participate in the oil and gas acquisition, exploration, development and production business in the United States and internationally. GeoPetro Company was subsequently merged into GeoPetro Resources Subsidiary Company, a California corporation, on June 28, 1996. GeoPetro s name was then changed to GeoPetro Resources Company. GeoPetro s corporate offices are in San Francisco, California. The accompanying consolidated financial statements include the accounts of GeoPetro and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Operations Although GeoPetro is not a development stage enterprise, the company has a limited operating history upon which an evaluation of its business prospects can be based. The risks, expense, and difficulties encountered by early stage companies must be considered when evaluating GeoPetro s business prospects. GeoPetro incurred a net loss of \$182,614 and \$73,077 for the three months ended March 31, 2007 and 2006, and had an accumulated deficit at March 31, 2007 of \$10,576,599. GeoPetro expects to make significant capital expenditures in the foreseeable future. Management believes that GeoPetro will be successful in obtaining adequate sources of cash to fund its anticipated capital expenditures through the end of 2007 and to follow through with plans for continued investments in oil and gas properties. GeoPetro s success, in part, depends on its ability to generate additional financing, farm-out certain of its projects and manage its relations with the companies that provide exploration and development services. GeoPetro s success also depends on its ability to effectively manage growth and develop proven reserves. Additionally, GeoPetro s operations are subject to all of the environmental and operational risks normally associated with the oil and gas industry. GeoPetro maintains insurance that is customary in the industry.

Since its inception, GeoPetro has participated as a working interest owner in the acquisition of undeveloped leases, seismic options, lease options and foreign concessions and has participated in seismic surveys and the drilling of test wells on its undeveloped properties. Further leasehold acquisitions and seismic operations are planned for 2007 and future periods. In addition, drilling is scheduled during 2007 and future periods on GeoPetro s undeveloped properties. It is anticipated that these exploration activities together with others that may be entered into may impose financial requirements which may exceed the existing working capital of GeoPetro. Management may raise additional equity and/or debt capital, and has farmed-out certain of its projects to finance its continued participation in planned activities. In the opinion of GeoPetro management, GeoPetro can continue as a going concern even if additional financing is unavailable. However, if additional financing is not available, GeoPetro may be compelled to reduce the scope of its business activities. If GeoPetro is unable to fund planned expenditures, it may be necessary to:

1. forfeit its interest in wells that are proposed to be drilled;
2. farm-out its interest in proposed wells;
3. sell a portion of its interest in prospects and use the sale proceeds to fund its participation for a lesser interest; and

4. reduce general and administrative expenses.

7

In order for GeoPetro to maintain its interest in the Indonesian and Australian contract and permit areas, certain work and expenditure commitments must be met or an extension must be granted by the applicable governing authority. In the event that GeoPetro does not meet the commitments and no extensions are granted for meeting the commitments, GeoPetro will forfeit its interest in the contract or permit areas requiring an impairment write-down equal to the capitalized costs recorded for the area forfeited. This could have a material adverse impact on GeoPetro's results of operations in future periods.

In July 2005, GeoPetro entered into agreements with unaffiliated companies that have purchased and are operating a dedicated gas treatment plant and related pipelines to process and transport GeoPetro's gas from the Madisonville Project in Madison County, Texas. These agreements are discussed in detail in Note 10 to the financial statements included in our Form 10-K for the year ended December 31, 2006. In connection with the Madisonville Project, GeoPetro re-completed an existing well for production from the Rodessa formation interval at approximately 11,800 feet of depth and completed an injection well for disposal of waste gasses from the production well. GeoPetro initiated gas sales from the Madisonville Project in May 2003. A second well was drilled, tested and completed during 2004 and is presently producing on a restricted rate awaiting a planned expansion of the gas treatment plant. Two additional development wells were drilled during 2006. Another well is planned for drilling during late 2007 in the Madisonville Project.

Other than the above work and expenditure commitments, the timing of most of GeoPetro's capital expenditures is discretionary. GeoPetro has no material long-term commitments associated with its capital expenditure plans or operating agreements. Consequently, GeoPetro has a significant degree of flexibility to adjust the level of such expenditures as circumstances warrant. The level of capital expenditures will vary in future periods depending on the success of exploratory drilling activities, gas and oil price conditions and other related economic factors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

U.S. GAAP The Company's financial statements have been prepared in accordance with accounting principles generally accepted within the United States of America (U.S. GAAP).

Use of Estimates and Significant Estimates Certain amounts in GeoPetro's financial statements are based upon significant estimates, including oil and gas reserve quantities which form the basis for the calculation of depreciation, depletion, amortization and impairment of oil and gas properties. Actual results could materially differ from those estimates.

Oil and Gas Properties GeoPetro follows the full cost method of accounting for oil and gas producing activities and, accordingly, capitalizes all costs incurred in the acquisition, exploration, and development of proved oil and gas properties, including the costs of abandoned properties, dry holes, geophysical costs, and annual 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 evaluated oil and gas properties is computed on the units of production method based on all proved reserves on a country by country basis. Unevaluated oil and gas properties are assessed for impairment either individually or on an aggregate basis. The net capitalized costs of evaluated 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.

Joint Ventures Some exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only GeoPetro's proportionate interest in such activities.

Revenue Recognition Revenue is recognized upon delivery of oil and gas production and is shown net of applicable royalty payments, processing and transportation fees. In addition, the Company recognizes revenue from the Madisonville Field net of applicable fees to gather, treat and transport the Company's natural gas production. The applicable fees are paid to unrelated third parties. Revenue from the Madisonville Field is recognized when the price for gas delivered becomes fixed and determinable. The price for gas delivered to the purchaser, Madisonville Gas Processing LP (MGP), becomes fixed and determinable after the gas has been gathered, treated, and transported to a common carrier pipeline where it is then resold by MGP to the common carrier pipeline on a spot market basis. The proceeds from the sale of the gas are deposited directly into an escrow account under the joint signature control of the Company and MGP. The fees to gather, treat and transport the gas are distributed to MGP in accordance with

agreements between them and the Company. The remaining net proceeds are distributed to the Company.

Asset Retirement Obligation In accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143), the fair value of an asset retirement cost, and corresponding liability,

8

should be recorded as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. GeoPetro recorded an asset retirement obligation to reflect GeoPetro's legal obligations related to future plugging and abandonment of its oil and gas wells. GeoPetro estimated the expected cash flow associated with the obligation and discounted the amount using a credit-adjusted, risk-free interest rate. At least annually, GeoPetro reassesses the obligation to determine whether a change in the estimated obligation is necessary. GeoPetro evaluates whether there are indicators that suggest the estimated cash flows underlying the obligation have materially changed. Should those indicators suggest the estimated obligation has materially changed, GeoPetro will accordingly update its assessment.

| | March 31, 2007 | December 31, 2006 |
|---|-------------------|----------------------|
| Asset retirement obligations, beginning of period | \$ 48,842 | \$ 26,641 |
| Liabilities incurred | 471 | 19,537 |
| Accretion expense | 707 | 2,664 |
| Asset retirement obligations, end of period | \$ 50,020 | \$ 48,842 |

Furniture, Fixtures and Equipment Furniture, fixtures and equipment are stated at cost. Depreciation is provided on furniture, fixtures and equipment using the straight-line method over an estimated service life of three to seven years.

Income Taxes GeoPetro accounts for income taxes using the asset and liability method wherein deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Because management has determined that realization of deferred tax assets is not likely, the net deferred tax assets are fully reserved.

Concentrations of Credit Risk Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions described below. The credit risk amounts for cash and accounts receivable do not take into account the value of any collateral or security.

GeoPetro maintains several cash accounts with three financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of March 31, 2007, the uninsured bank balance was \$1,022,458. GeoPetro has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

For the three months ended March 31, 2007 and year ended December 31, 2006, the Company had sales to customers exceeding 10% of total sales as follows:

| | March 31, 2007 | December 31, 2006 |
|------------|----------------|-------------------|
| Customer A | 57 | % 79 |
| Customer B | 43 | % 21 |

At March 31, 2007, the Company had accounts receivable balances from Customer B of \$776,308, or 92%, and from Customer A of \$394,337 or 77% at December 31, 2006 of total accounts receivable respectively.

Allowance for Doubtful Accounts Trade accounts receivable are recorded at net realizable value. If the financial condition of GeoPetro's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Delinquent trade accounts receivable are charged against the allowance for doubtful accounts once uncollectibility has been determined. The allowance is determined through an analysis of the past-due status of accounts receivable and assessments of risk that are based on historical trends and an evaluation of the impact of current and projected economic conditions. There was no activity in the allowance for doubtful accounts as of March 31, 2007 and December 31, 2006.

Fair Value of Financial Instruments The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. For certain of GeoPetro's financial instruments, including cash, accounts receivable, accounts payable and current portion of notes payable, the carrying amounts approximate fair value due to their maturities.

Stock-Based Compensation Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standard 123(R) *Share-Based Payment* (SFAS 123(R)) using the modified prospective transition method. In addition, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 *Share-Based Payment* (SAB 107) in March, 2005, which provides supplemental SFAS 123(R) application guidance based on the views of the SEC. Under the modified prospective transition method, compensation cost recognized in the three months ended March 31, 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted beginning January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In accordance with the modified prospective transition method, results for prior periods have not been restated.

The adoption of SFAS 123(R) resulted in stock compensation expense for the three months ended March 31, 2007 \$34,935 to income from continuing operations and income before income taxes, of which the entire amount was recorded to general and administrative expenses. The Company did not recognize a tax benefit from the stock compensation expense because the Company considers it is more likely than not that the related deferred tax assets, which have been reduced by a full valuation allowance, will not be realized.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2003 and 2005: risk-free, weighted-average interest rates ranging from 2.52 to 3.75 percent, expected dividend yield of 0 percent, expected life of 5 years from the date of grant, and expected volatility of 10 and 25 percent. After the initial public offering on March 30, 2006, an expected volatility factor of 58% was used for the newly issued common stock options and the extension of common stock options and warrants. A newly issued stock option is an option that was granted on or after March 30, 2006 or a previously granted stock option or warrant that is modified on or after March 30, 2006. The fair value of all newly issued stock options grants in 2006 is estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants and modifications of prior grants made on or after March 30, 2006 for the three months ended March 31, 2007: risk-free, weighted average interest rate of 4.9 percent based on the U.S. Treasury yield curve in effect at the time of grant, expected dividend yield of 0 percent, expected life of 5 years from the date of grant (the remaining term of the option in the case of option extensions), and expected volatility of 58%. GeoPetro selected 10 publicly traded small cap companies whose primary business is oil and gas exploration and production. Small cap, for purposes of this analysis, is defined as companies with a market capitalization under \$1 billion. From this peer group of similar companies, GeoPetro randomly selected 10 companies and derived expected volatility factors for the most recent completed fiscal years for each entity as reported in their recently filed 10K or 10KSB Annual Reports with the Securities and Exchange Commission. Where the expected volatilities were expressed as a range, a simple average of the range is used as an expected volatility for that entity.

A description of the common stock options outstanding as of March 31, 2007 are included in Note 6.

Income (Loss) Per Common Share Basic earnings per share excludes dilution and is calculated by dividing net income or loss by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared from the earnings of the entity. Potential common shares for the periods ended March 31, 2007 and 2006 were excluded from the earnings per share computation because the Company incurred net losses and were anti-dilutive.

| | Three Months Ended March 31, | |
|--|------------------------------|---------------|
| | 2007 | 2006 |
| Net Income (Loss) and Adjustments: | | |
| Net Income (Loss) Available to Common Shareholders | \$ (182,614) | \$ (73,077) |
| Adjustments | Anti-dilutive | Anti-dilutive |
| Net Earnings (Loss) for Diluted Calculation | \$ (182,614) | \$ (73,077) |
| Shares: | | |
| Weighted Average Shares Outstanding | 27,526,895 | 21,839,538 |
| Outstanding Options | Anti-dilutive | Anti-dilutive |
| Series A Preferred Stock - Conversion | Anti-dilutive | Anti-dilutive |
| Outstanding Warrants | Anti-dilutive | Anti-dilutive |
| Average Number of Shares for Diluted Calculation | 27,526,895 | 21,839,539 |
| Diluted EPS | \$ (0.01) | \$ (0.00) |

Cash Equivalents Cash and cash equivalents include cash on hand, amounts held in banks and highly liquid investments purchased with an original maturity of three months or less.

New Accounting Pronouncements --- In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). It became effective for the Company on January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on measurement, classification, interim accounting and disclosure. We adopted FIN 48 effective January 1, 2007 (See Note 8).

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. Where applicable, this statement simplifies and codifies fair value related guidance previously issued within GAAP. Although this statement does not require any new fair value measurements, its application may, for some entities, change current practice. SFAS No. 157 will be effective for the Company beginning January 1, 2008. The adoption of SFAS No. 157 is not expected to have a material impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 applies to all entities and is effective for fiscal years beginning after November 15, 2007. Adoption of SFAS No. 159 is not required for these financial statements, and we are currently determining the impact, if any, that SFAS No. 159 will have on our future financial statements.

3. SHORT TERM NOTES PAYABLE:

Short term notes payable at three months ended March 31, 2007 and December 31, 2006 consisted of the following:

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| | March 31, 2007 | December 31, 2006 |
|---|----------------|-------------------|
| Promissory note dated January 31, 2006, payable to Pinehill Capital; collateralized with an undivided 5% of the net cash flow in GeoPetro's Madisonville Project; payable on or before October 31, 2007 (a) | \$ 1,000,000 | \$ 1,000,000 |
| Promissory note dated February 1, 2007 payable on or before October 31, 2007 (b) | 500,000 | |
| Promissory note dated February 6, 2007 payable on or before October 31, 2007 (c) | 300,000 | |
| Promissory note dated February 1, 2007 payable on or before October 31, 2007 (d) | 100,000 | |
| | 1,900,000 | 1,000,000 |
| Less discount on promissory notes | (126,733) | (17,699) |
| | \$ 1,773,267 | \$ 982,301 |

(a) The Company issued a \$1,000,000 short term promissory note on January 31, 2006 with a maturity date of January 31, 2007. The note may be repaid at any time without penalty. In the event the note is not repaid by the maturity date, the Company has agreed to dedicate 5% of the net cash flow from the Madisonville Project in Texas toward the repayment of the note and any accrued interest thereon. In connection with the note, the Company paid a loan origination fee of \$30,000 and granted a three-year warrant exercisable to purchase 150,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$182,390, as well as the \$30,000 loan origination fee, was recorded as a debt discount and is being amortized over the life of the promissory note. On February 1, 2007, the maturity date was extended to October 31, 2007. The Company has paid \$80,000 accrued interest thru January 31, 2007. In connection with the extension, the Company paid a loan extension fee of \$30,000 and granted a three-year warrant exercisable to purchase 50,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$57,242, together with the \$30,000 loan extension fee, were recorded as a debt discount and are being amortized over the life of the promissory note. As of March 31, 2007, the unamortized debt discount was \$67,855.

(b) The Company issued a \$500,000 short term promissory note payable on February 1, 2007 with a maturity date of October 31, 2007. The note may be repaid at any time without penalty. The principal plus accrued interest on the note are due on the maturity date. In connection with the note, the Company paid a loan origination fee of \$15,000 and granted a three-year exercisable warrant to purchase 25,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$27,072, as well as the \$15,000 loan origination fee, was recorded as a debt discount and is being amortized over the life of the promissory note. As of March 31, 2007, the unamortized debt discount was \$32,723.

(c) The Company issued a \$300,000 short term promissory note payable on February 6, 2007 with a maturity date of October 31, 2007. The note may be repaid at any time without penalty. The principal plus accrued interest on the note are due on the maturity date. In connection with the note, the Company paid a loan origination fee of \$9,000 and granted a three-year exercisable warrant to purchase 15,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$16,214, as well as the \$9,000 loan origination fee, was recorded as a debt discount and is being amortized over the life of the promissory note. As of March 31, 2007, the unamortized debt discount was \$19,611.

(d) The Company issued a \$100,000 short term promissory note payable on February 1, 2007 with a maturity date of October 31, 2007. The note may be repaid at any time without penalty. The principal plus accrued interest on the note are due on the maturity date. In connection with the note, the Company paid a loan origination fee of \$3,000 and

granted a three-year exercisable warrant to purchase 5,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$5,414, as well as the \$3,000 loan origination fee, was recorded as a debt discount and is being amortized over the life of the promissory note. As of March 31, 2007, the unamortized debt discount was \$6,544.

12

4. RELATED PARTY TRANSACTIONS:

There were no material changes in related party transactions from those disclosed in the audited annual consolidated financial statements for the year ended December 31, 2006, except:

On February 12, 2007, Stuart J. Doshi, President and CEO, loaned \$100,000 to the Company. The note bears interest at 8% annually and is payable on demand. The note plus accrued interest was repaid on March 28, 2007.

On June 7, 2006, the Company loaned \$1,000,000 to G. Carter Sedanoui, a 5% shareholder, evidenced by a short term promissory note payable to the Company with an original maturity date of March 31, 2007. On March 30, 2007, the Company extended the maturity date of the note to June 30, 2007.

5. SHAREHOLDERS EQUITY:

GeoPetro's articles of incorporation allow for the issuance of 100,000,000 shares of common stock, 1,000,000 shares of Series A preferred stock (Series A Stock), 5,000,000 shares of Series AA preferred stock (Series AA Stock), and an additional 44,000,000 shares of preferred stock which may be issued from time to time in one or more series.

During the three months ended March 31, 2007, the following issuances of common stock were made:

| | Preferred Stock Series AA | | Common Stock | |
|--------------------------------------|------------------------------|--------------|--------------|---------------|
| | Shares | Amount | Shares | Amount |
| Balances, December 31, 2006 | 1,890,710 | \$ 5,924,068 | 27,423,758 | \$ 40,112,265 |
| Issuance of common stock for cash | | | 45,250 | 56,563 |
| Series AA preferred stock conversion | (1,890,710) | (5,924,068) | 1,890,710 | 5,924,068 |
| Balances, March 31, 2007 | | \$ | 29,359,718 | \$ 46,092,896 |

Conversion of Series A Stock On March 28, 2007, all 1,890,710 of the Company's outstanding shares of Series AA Stock automatically converted into 1,890,710 shares of our common stock, no par value per share. Under the Company's Amended and Restated Articles of Incorporation, and as more fully described in Note 7 included in our Form 10K for the year ended December 31, 2006, the Series AA stock automatically converts into common shares on a one-for-one share basis effective the first trading day after the reported high selling price for our common shares is at least \$5.25 per share for any consecutive ten trading days, which condition was met on March 27, 2007. Dividends accrued on the Series AA Stock at a rate of \$0.28 per annum, per share, while the Series AA Stock was outstanding. In 2006, dividends paid on the Series AA Stock totaled \$529,400. Pursuant to the terms of the Series AA Stock, no dividends are payable for the first quarter of 2007.

6. COMMON STOCK OPTIONS:

There were no material changes to common stock options from those disclosed in the audited annual consolidated financial statements for the year ended December 31, 2006. The options outstanding as of March 31, 2007 have the following contractual lives:

| Number of Options Outstanding | Number of Options Exercisable | Exercise Prices | Weighted Average Remaining Contractual Life |
|-------------------------------------|-------------------------------------|--------------------|---|
| 750,000 | 750,000 | 0.50 | 1.08 |
| 1,290,000 | 1,290,000 | 2.00 | 0.75 |
| 1,750,000 | 1,070,000 | 2.10 | 6.18 |
| 150,000 | 0 | 3.85 | 4.05 |
| 10,000 | 4,000 | 4.25 | 2.76 |
| 10,000 | 2,000 | 6.25 | 3.20 |
| 3,960,000 | 3,116,000 | | |

As of March 31, 2007, there are 3,116,000 options which are exercisable. The remaining 844,000 options will become exercisable ratably over the next four years.

7. COMMON STOCK WARRANTS:

On February 12, 2007, the Company issued a two-year exercisable common stock warrant to purchase 20,000 Common Shares at \$3.50 per share to an unaffiliated third party for geophysical services. The purchase right under the warrant has an expiration date of February 12, 2009 unless terminated earlier in accordance with the stock warrant purchase agreement.

On February 28, 2007, the Company issued a two-year exercisable common stock warrant to purchase 5,000 Common Shares at \$4.51 per share to the same party as above for geophysical services. The purchase right under the warrant has an expiration date of February 28, 2009 unless terminated earlier in accordance with the stock warrant purchase agreement.

The fair value of the warrants totalled \$32,533 and was capitalized in oil and gas properties as part of the U.S. cost pool.

In addition, during the three months ended March 31, 2007, the Company issued common stock warrants in connection with promissory notes payable. These warrant issuances are discussed in Note 3.

8. INCOME TAXES:

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the adoption of FIN 48, the Company has unrecognized tax benefits of \$86,000 as of the date of adoption. No corresponding interest and penalties have been accrued as the Company is in a net operating loss position.

The Company files income tax returns in the U.S. federal jurisdiction and various states. There is currently a federal income tax audit for the 2004 tax year in progress. There are currently no other federal or state income tax examinations underway for these jurisdictions. Furthermore, the Company is no longer subject to U.S. federal income tax examinations by the Internal Revenue service for tax years before 2003 and for state and local tax authorities for years before 2002. The Company does, however, have net operating losses generated in tax years 1995 and after, which remain open for examination.

The Company provides for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of the assets and liabilities. Where it is more likely than not that a tax benefit will not be realized, a valuation allowance is recorded to reduce the deferred tax asset to its realizable value.

A valuation allowance has been provided against the Company's net deferred tax assets as the Company believes that it is more likely than not that the net deferred tax assets will not be realized. As a result of this valuation allowance, the effective tax rate for the first quarter of 2007 and for the year ended December 31, 2006 is zero percent.

9. COMMITMENTS AND CONTINGENCIES:

There were no material changes to commitments and contingencies from those disclosed in the audited annual consolidated financial statements for the year ended December 31, 2006 except as disclosed in Note 8 herein, and as follows:

Salary Increases On December 18, 2006, the independent members of the board of directors, acting on the recommendations of Stuart J. Doshi, the President and CEO, voted to increase the salaries of Messrs. Creel and Steinhauser, officers of the Company, to \$163,200 annually effective January 1, 2007.

10. SUBSEQUENT EVENTS:

On April 25 and May 9, 2007, an officer and director exercised warrants to purchase 80,000 and 70,000 shares of common stock, respectively, at an exercise price of \$2.00 per share. The warrants were granted on June 18, 2000 and had an expiration date of June 30, 2007.

On May 11 and May 14, 2007, 12,357 and 25,000 shares of common stock, respectively, were issued for gross and net proceeds of \$130,750 pursuant to the exercise of warrants.

15

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 and Cautionary Notes Regarding Forward Looking Statements, 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

GeoPetro Resources Company (the Company, we or us) is a California incorporated 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 1.56 million gross (396,080 net) acres, consisting of mineral leases, production sharing contract 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 and the Fannin#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 2007. We expect the majority of our capital expenditures in 2007 to be the costs of drilling and completing wells in the Madisonville Field.

Results of Operations

The financial information with respect to the three months ended March 31, 2007 and 2006 that is 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 year.

| | Three Months Ended March 31, 2007 (unaudited) | March 31, 2006 (unaudited) |
|--|--|---------------------------------------|
| Consolidated Statement of Operations: | | |
| Revenues | \$ 1,823,342 | \$ 1,498,453 |
| Lease operating expense | 427,277 | 266,223 |
| General and administrative | 759,356 | 548,864 |
| Net profits expense | 184,204 | 158,603 |
| Depreciation and depletion expense | 576,942 | 405,197 |
| Earnings (loss) from operations | (124,437) | 119,566 |
| Net income (loss) | (182,614) | 57,460 |
| Net income (loss) attributable to common shareholders | \$ (182,614) | \$ (73,077) |
| Revenue and Operating Trends in 2007 | | |

As discussed in the Properties Texas Madisonville Project section in our Annual Report on Form 10-K for the year ended December 31, 2006, 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, the construction and

installation of a natural gas treatment plant with a designed capacity of 18 MMcf/d and associated pipeline and gathering facilities were completed. The treatment plant and associated pipeline and gathering facilities are owned by an unaffiliated third party. The natural gas plant is currently treating approximately 16.5 MMcf/d of inlet natural gas from our Magness and Fannin Wells.

In 2005 we secured a commitment from 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. Representatives of MGP have indicated that they expect the full expansion of the treatment plant to 68 MMcf/d capacity can be in place and operational by the second quarter of 2007.

Upon completion of the plant expansion, we expect to produce our Fannin Well at a higher rate as the well rate has previously been restricted due to capacity limitations in the gas treatment plant. We also expect to commence production from our Mitchell Well, which is currently shut-in awaiting the plant expansion. In addition, later in 2007 we expect to fracture stimulate the Wilson Well, and provided such stimulation is successful, we will place the Wilson Well on production.

In addition, our contract with MGP provides that for the first 18,000 Mcf/d of gas measured and delivered to the inlet flange of the gas treatment plant, we will pay MGP a treating fee of \$1.50 per Mcf (this fee is presently \$1.55 per Mcf adjusted for inflation). For any gas volumes in excess of 18,000 Mcf/d of gas delivered to the inlet flange of the gas treatment plant, the treating fee we pay to MGP is reduced from \$1.50 to \$1.10 per Mcf (\$1.14 per Mcf adjusted for inflation). We record our revenues net of these treating fees. Thus, if we are able to increase our inlet production volumes over 18 MMcf/d on a sustained basis, we expect to experience a disproportionately higher increase in revenue due to lower average treating fees per Mcf.

While there can be no assurance, the higher production rates from our wells combined with the lower average treating fees per Mcf, may result in higher net production and increased revenue during later periods in 2007 as compared to the first quarter of 2007 and prior periods.

Industry Overview for the three months ended March 31, 2007

The first quarter of 2007 saw strengthening natural gas prices. 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 March 30, 2007, was \$6.80 versus \$5.40 as of December 29, 2006. Natural gas prices improved during the quarter due to higher demand induced by cold temperatures experienced in many parts of the United States, among other factors.

Company Overview for the three months ended March 31, 2007

Our net loss after taxes for the quarter ended March 31, 2007 was \$182,614. 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 March 31, 2007 of \$10,576,599. Commencing in May 2003, we placed our Madisonville Project into production. Substantially all of our oil and natural gas sales for the quarter ended March 31, 2007 were derived from our Madisonville Project, from two producing wells, the UMC Ruby Magness #1 well (the Magness Well) and the Angela Farris Fannin #1 well (the Fannin Well).

Comparison of Results of Operations for the three months ended March 31, 2007 and 2006

During the three months ended March 31, 2007, we had oil and natural gas revenues of \$1,823,342. Our net production was 522,996 thousand cubic feet (Mcf) of natural gas at an average price of \$3.49 per Mcf.

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During the three months ended March 31, 2006, we had oil and natural gas revenues of \$1,498,453. Our net production for the three months ended March 31, 2006 was 468,578 Mcf at an average price of \$3.20 per Mcf. Revenues increased in the three months ended March 31, 2007 as compared to the prior year period due to higher gas prices and 12% higher production volumes. Prices were approximately 9% higher for the three months ended March 31, 2007 versus the same period in 2006.

During the three months ended March 31, 2007, we incurred lease operating expenses of \$427,277. Our average lifting cost for the 2007 period was \$0.82 per Mcf. During the three months ended March 31, 2006, we incurred lease operating expenses of \$266,223. Our average lifting cost for the 2006 period was \$0.57 per Mcf. The higher average lifting cost in first quarter 2007 was due to a workover done on the Magness well and production taxes attributable to the Fannin #1 well. The Fannin #1 well was not placed on production until March 2006. The production for the Magness and the Fannin wells is at present limited to the current treatment plant's capacity of up to 18,000 Mcf/d. Therefore, the production from the Fannin #1 and the Magness #1 wells is limited to a rate that is below the combined productive flow capability of the wells. A majority of the lease operating costs are fixed costs such as chemical treatments for the wells, insurance, ad valorem tax, and salaries paid to the field personnel. During the three months ended March 31, 2007, the total lease operating costs for the Magness #1 well were \$171,565 versus \$229,008 in the same period of 2006. The net production of the Magness #1 well was 171,303 Mcf for the three months ended March 31, 2007 compared to 376,181 Mcf in same period of 2006. Most of the production decrease is attributable to natural declines. As a result, the average lifting cost for the Magness #1 well was \$1.00 per Mcf for the three months ended March 31, 2007 versus \$0.61 per Mcf in the same period of 2006. The average lifting cost for the Fannin #1 well was \$0.73 per Mcf for the three months ended March 31, 2007. The Fannin #1 well's average lifting cost was lower than the Magness #1 well due mainly to the cost of the Magness #1 workover performed in the first quarter of 2007.

During the three months ended March 31, 2007, we incurred net profits interest expense of \$184,204 associated with the Magness and the Fannin wells as compared to \$158,603 during the three months ended March 31, 2006. The 16% increase resulted from higher gas prices as well as higher production volumes in the three months ended March 31, 2007 versus 2006. The net profits interest is 12.5% of the net operating profits from our Magness and Fannin wells.

General and administrative expenses for the three months ended March 31, 2007 were \$759,356 compared to \$548,864 for the three months ended March 31, 2006. This represents a \$210,492 increase over the prior year period due primarily to U.S. and Canada public company filing fees, and costs associated with our SEC registration statement, listing on the American Stock Exchange and ongoing filing requirements.

Depreciation, depletion and amortization expense (DD&A) for the three months ended March 31, 2007 was \$576,942 as compared to \$405,197 in the same period of 2006, which amounts primarily represent amortization of the U.S. full cost pool for the three months ended March 31, 2007 and 2006, respectively. The increase was due to higher net production in the three months period of 2007 and an increase in the amount of capitalized cost in the U.S. full cost pool.

Loss from operations totaled \$124,437 for the three months ended March 31, 2007 as compared to income from operations of \$119,566 for the three months ended March 31, 2006. The increase in the loss from operations was due primarily to higher lease operating, general and administrative and depletion costs.

Other income for the three months ended March 31, 2007 and 2006 consisted of interest income in the amount of \$28,005 and \$434, respectively. The reason for the increased interest income was higher average cash and cash equivalent balances during the 2007 period as compared to 2006 period.

During the three months ended March 31, 2007 and 2006, we incurred interest expense of \$86,182 and \$48,549, respectively. The higher interest expense in the current period was due to short-term borrowings which were incurred to complete the Mitchell well as well as a workover performed on the Magness well.

Net loss before taxes for the three months ended March 31, 2007 was \$182,614 as compared to net income before taxes of \$71,451 for the three months ended March 31, 2006. The net loss during 2007 was primarily due to higher lease operating, general and administrative and depletion costs.

Income tax expense for the three months ended March 31, 2007 was \$-0- compared to \$13,991 in the same period of 2006. The decreased income tax expense was due to net loss occurred in the three months ended March 31, 2007.

Recent Developments

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On September 29, 2006, we sold to CNPC 70% of our shareholding in C-G Bengara and our interest in the Bengara Block, reducing our interest from 40% to 12%. CNPC is a wholly owned subsidiary of CNPC (Hong Kong) Ltd. who is party to the agreements as guarantor. CNPC (Hong Kong) Ltd. is a publicly held company based in Hong Kong and its shares trade on the Hong Kong Stock Exchange under the listing number 0135.HK. CNPC (Hong Kong) Ltd. is a 52% owned subsidiary of the China National Petroleum Company based in Beijing, PRC. See the Properties Description of Properties Indonesia section in our Annual Report on Form 10K for the year ended December 31, 2006.

During 2006, our wholly-owned subsidiary, Redwood Energy Production, L.P. (**Redwood LP**), was a defendant in two lawsuits, titled the Miller Lawsuit and Redwood vs. George Mejlender. To avoid the costs of continued litigation, Redwood LP, the Miller plaintiffs and the Mejlender plaintiffs, through mediation, entered into a binding settlement agreement on June 1, 2006 to resolve all of their disputes. Under the terms of the settlement, Redwood LP paid the plaintiffs \$1,100,000 in cash upon the closing of the settlement, executed a 6% promissory note in favor of the Miller and Mejlender plaintiffs with a December 29, 2006 maturity date in the amount of \$900,000 secured by Redwood LP's interest in the Magness Well, and assigned the plaintiffs overriding royalty interests of 2% in the Magness Well, 2% in the Fannin Well, 0.75% in the Wilson Well, and agreed to assign 0.5%, 0.3% and 0.2% in the first, second and third wells, respectively, in the event these wells are drilled and completed by Redwood LP below the Rodessa-Sligo Interval. The plaintiffs have assigned to Redwood LP any and all ownership interests they may have had in the Madisonville Prospect below the top of the Rodessa-Sligo Interval and conveyed all of their overriding royalty interests in the Madisonville Prospect in the Rodessa-Sligo Interval and below. The combined \$2.0 million has been recorded to evaluated oil and gas properties. On December 28, 2006, we paid the 6% promissory note, plus accrued interest, in full.

In February 2007, we borrowed \$900,000 pursuant to three promissory notes bearing interest at 8% per annum. The notes mature on October 31, 2007. In connection with these notes, we paid loan origination fees totaling \$27,000 and issued three year warrants exercisable to purchase 45,000 shares of our common stock at \$3.50 per share which expire in February 2009.

In February 2007, we received an extension of the maturity date of our promissory note for \$1,000,000 payable to Pine Hill Capital, LLC to October 31, 2007. In connection with the extension, we paid a loan extension fee of \$30,000 and granted a three-year warrant to purchase 50,000 shares of our common stock at \$3.50 per share. If we do not repay the note by October 31, 2007, we are required to dedicate 5% of our net cash flow from the Madisonville Project located in Madison County, Texas, toward the unpaid principal and all accrued and unpaid interest on the note, until all such amounts are paid in full. Net cash flow means our gross revenues, less royalties, production taxes and net profits interest expense.

In February 2007, Stuart J. Doshi, President and CEO, loaned \$100,000 to us pursuant to a promissory note bearing interest at 8% per annum, payable upon demand. We repaid the note plus accrued interest on March 28, 2007.

On June 7, 2006, we loaned \$1,000,000 to G. Carter Sednaoui, a 5% shareholder, evidenced by a full-recourse short-term promissory note payable to us with an original maturity date of March 31, 2007. On March 30, 2007, we extended the maturity date of the note to June 30, 2007.

On March 28, 2007, all 1,890,710 of our outstanding shares of our Series AA Stock automatically converted into 1,890,710 shares of our common stock. Under our Amended and Restated Articles of

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Incorporation, the Series AA stock automatically converts into common shares on a one-for-one share basis effective the first trading day after the reported high selling price for our common shares is at least \$5.25 per share for any consecutive ten trading days, which condition was met on March 27, 2007. As a result of the conversion of our Series AA stock to common stock on March 28, 2007, dividends on the Series AA Stock ceased accruing on December 31, 2006. In 2006, dividends paid on the Series AA Stock totaled \$529,400.

On April 25, 2007 and May 9, 2007, an officer and director exercised warrants to purchase 80,000 and 70,000 shares of common stock at an exercise price of \$2.00 per share. The warrants were granted on June 18, 2000 and had an expiration date of June 30, 2007.

On May 11 and May 14, 2007, we issued 12,357 and 25,000 shares of common stock at an exercise price of \$3.50 per share in connection with warrant exercises.

Liquidity and Capital Resources

We had a working capital deficit of \$1,591,961 versus \$1,238,261 at March 31, 2007 and December 31, 2006, respectively. Our working capital decreased during three months ended March 31, 2007 due primarily to costs associated with: our SEC registration, our listing on the American Exchange and the Mitchell well s hookup costs.

We have historically financed our business activities through March 31, 2007 principally through issuances of common shares, promissory notes and common stock purchase warrants in private placements. These financings are summarized as follows:

| | Three Months Ended | |
|--|---------------------------|-----------------------|
| | March 31, 2007 | March 31, 2006 |
| Increase in deposit in trust | \$ | \$ (10,867,849) |
| Increase in restricted cash | | (2,000,075) |
| Proceeds from sale of common shares and warrant exercises, net | 71,729 | 14,453,657 |
| Payment on preferred dividends | | (130,537) |
| Repayments of promissory notes | (100,000) | |
| Proceeds from promissory notes | 1,000,000 | 1,000,000 |
| Payment of loan fee | (57,000) | (30,000) |
| Deferred offering costs | | 881,159 |
| Net cash provided by financing activities | \$ 914,729 | \$ 3,306,355 |

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The net proceeds of our financings have been primarily invested in oil and natural gas properties totaling \$945,895, and \$6,423,659 for the three months ended March 31, 2007 and 2006, respectively.

Our cash balance at March 31, 2007 was \$987,780 compared to a cash balance of \$734,561 at December 31, 2006. The change in our cash balance is summarized as follows:

| | |
|--|------------|
| Cash balance at December 31, 2006 | \$ 734,561 |
| Sources of cash: | |
| Cash provided by operating activities | 284,385 |
| Cash provided by financing activities | 914,729 |
| Total sources of cash including cash on hand | 1,933,675 |
| Uses of cash: | |
| Cash used in investing activities: | |
| Oil and natural gas property expenditures | (945,895) |
| Total uses of cash | (945,895) |
| Cash balance at March 31, 2007 | \$ 987,780 |

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 2007 for a description of our expected capital expenditures for 2007. 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 short term promissory notes to finance our activities.

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, 2006. There were no material changes to our contractual obligations since December 31, 2006.

Income Taxes

As of December 31, 2006, we had net operating loss (NOL) carryforwards of approximately \$22,932,000 for federal income tax purposes beginning to expire in 2010 and \$10,926,000 for state income tax purposes which began to expire in 2006.

A significant change in our ownership may limit our ability to use these NOL carryforwards. Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, requires that the tax benefit of such net operating loss be recorded as an asset. At December 31, 2006, we had net deferred tax assets of approximately \$3.7 million related to the NOL and other temporary differences. We have recorded a full valuation allowance of \$3.7 million at December 31, 2006, due to uncertainties surrounding the realizability of the deferred tax asset.

Effective January 1, 2007, we adopted the provisions of FASB interpretation No. 48, Accounting for Uncertainty in Income Taxes, the detail of which is included in Note 8.

Off Balance Sheet Arrangements

As of March 31, 2007, we had no off balance sheet arrangements.

Financial Instruments

We have not committed any forward sales of our natural gas and do not employ any other financial instruments.

Outlook for 2007

Depending on capital availability, we are forecasting capital spending of up to approximately \$16.0 million in 2007, allocated as follows:

1. Madisonville Project, Madison County, Texas. Approximately \$11.0 million will be expended in the Madisonville Field area as follows: \$10,000,000 to drill a deep well location, and \$1,000,000 to be utilized for land acquisition, engineering and permitting.
2. Alaska Cook Inlet Project, up to approximately \$3.0 million will be expended for the drilling of pilot program wells.
3. Central Alberta Reef Project. Up to approximately \$2.0 million will be expended to drill exploratory wells and acquire 3-D seismic data.

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 expect commodity prices to be volatile, reflecting the current tight supply and demand fundamentals for North American natural gas and world crude oil. Political events around the world, which are difficult to predict, will continue to influence both oil and gas prices. Higher prices for oil and gas often lead to higher levels of drilling activity which in turn lead to higher costs to explore, develop and acquire oil and gas reserves due to greater competition for resources and supplies. These higher 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 impact is 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, 2006 for a 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, 2006 for a description of the principal risks faced by us.

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. For the first quarter ended March 31, 2007, a 10% change in the prices received for natural gas production would have had an approximate \$800,000 impact on our revenues.

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 three months ended March 31, 2007 and the year ended December 31 2006.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures, as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e), were, as of the end of the period covered by this report, to the best of their knowledge, effective.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the first fiscal quarter of 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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. Currently, we are not involved in any legal proceedings nor are we party to any pending or threatened claims that could, individually or in the aggregate, reasonably be expected to have a material adverse effect on our financial condition, cash flow or results of operations.

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, 2006, referred to as our 2006 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 2006 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. All of these could

adversely affect our business, financial condition, results of operations and cash flows and, thus, the value of an investment in our company.

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

Unregistered Sales of Securities

During February 2007, we issued a total of \$900,000 in unsecured 8% promissory notes due October 31, 2007 to three accredited investors. The private placement issuances of the unsecured promissory notes were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act and Rule 506 of Regulation D. The investors in the private placements were accredited investors, as defined in Rule 501(a). We did not accomplish the offer or sale of the securities sold in the private placement through any manner of general solicitation or general advertising. We made available to the investor, prior to purchase, the opportunity to ask questions and receive answers concerning the terms and conditions of the private placement.

Use of Proceeds

Our registration statement on Form S-1 (Reg. No. 333-135485) 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 Securities and Exchange Commission on February 8, 2007. The offering commenced on February 8, 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 statement; however if all warrants and options to acquire our common stock being registered thereunder are exercised, we will realize cash proceeds of approximately \$14,019,681, which we expect to use for general working capital purposes and the drilling of wells in our Texas, Alaska, California and Indonesian prospects.

If less than the \$14,019,681 proceeds are realized from the exercise of such warrants and options, the proceeds will be spent in the following order of priority:

1. Alaska Cook Inlet Project, up to approximately \$3.0 million will be expended for the drilling of pilot program wells.
2. Madisonville Project, Madison County, Texas. Up to approximately \$10 million will be expended in the Madisonville Field area towards the drilling and completion of one deep exploratory well location to an estimated depth of 18,000 feet.
3. General working capital.

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.

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.

Exhibit

| Number | Description |
|---------------|--|
| 3.1** | Amended and Restated Articles of Incorporation of GeoPetro Resources Company |
| 3.2*** | Amended and Restated Bylaws of the GeoPetro Resources Company |
| 4.1** | Form of Warrant issued by GeoPetro Resources Company to various investors on various dates. |
| 4.2** | Specimen Common Stock Certificate |
| 10.1** | Joint Venture Agreement Bengara II, Dated January 1, 2000 |
| 10.2** | Production Sharing Contract Bengara II, Dated December 4, 1997 |
| 10.3** | Joint Venture Agreement Whicher Range, Dated October 28, 1996 |
| 10.4** | Exploration Permit #408, Dated July 2, 1997 |
| 10.5** | Madisonville Field Development Agreement Dated August 1, 2005 |
| 10.6** | Alaska Cook Inlet Option dated April 20, 2005 |
| 10.7** | The 2001 Stock Incentive Plan |
| 10.8** | The 2004 Stock Option and Appreciation Rights Plan |
| 10.9** | Stuart Doshi Employment Agreement, Dated July 28, 1997 (effective July 1, 1997) and amendments dated January 11, 2001, July 1, 2003, April 20, 2004, May 9, 2005, July 28, 2005 and January 30, 2006 |
| 10.10** | David Creel Employment Agreement, Dated April 28, 1998 and amendments dated June 15, 2000, May 12, 2003 and January 1, 2005 |
| 10.11** | J. Chris Steinhauser Employment Agreement, Dated June 19, 2000 and amendments dated December 12, 2002 and January 1, 2005 |
| 10.12** | Office Lease Agreement, Dated effective March 1, 2004 |
| 10.13** | Promissory Note to Pinehill Capital Inc., Dated January 31, 2006 |
| 10.14** | Form of Subscription Agreement for GeoPetro Resources Company stock executed by various investors on various dates. |
| 10.15** | Promissory Note between GeoPetro Resources Company and G. Carter Sednaoui, Dated June 7, 2006 |
| 10.16** | Flow-Through Share Agreement between GeoPetro Resources Company and GeoPetro Canada Ltd., Dated March 30, 2006 |
| 10.17** | Form of Flow-Through Share Agreement between GeoPetro Resources Company and various investors, Dated March 30, 2006 |
| 10.18** | Promissory Notes between GeoPetro Resources Company and Stuart J. Doshi, various dates |
| 10.19** | Shares Sale & Purchase Agreement Dated September 29, 2006 |
| 21.1*** | List of Subsidiaries of GeoPetro |
| 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 Chief Financial Officer. |
| 32.1* | Certification of Chief Executive Officer and Chief Financial Officer of GeoPetro Resources Company pursuant to 18 U.S.C. § 1350. |

* Filed herewith

** Filed as the identically numbered exhibit to the Registration Statement on Form S-1, as amended (No. 333-135485), as filed with the Securities and Exchange Commission on June 30, 2006, and incorporated herein by reference.

*** Filed as the identically numbered exhibit to the Annual Report on Form 10K, as filed with the Securities and Exchange Commission on April 2, 2007, and incorporated herein by reference.

Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements 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.

| Signature | Title | Date |
|--|--|--------------|
| /s/ Stuart J. Doshi Stuart J. Doshi | Chairman of the Board, President and Chief Executive Officer | May 15, 2007 |
| /s/ David V. Creel David V. Creel | Vice President of Exploration and Director | May 15, 2007 |
| /s/ J. Chris Steinhauser J. Chris Steinhauser | Vice President of Finance and Chief Financial Officer, Principal Accounting Officer and Director | May 15, 2007 |