

GULFPORT ENERGY CORP  
Form 10-K  
March 12, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

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

Commission File Number: 000-19514

**Gulfport Energy Corporation**

(Exact Name of Registrant as Specified in Its Charter)

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

**73-1521290**  
(I.R.S. Employer Identification No.)

**14313 North May Avenue, Suite 100**

**Oklahoma City, Oklahoma**  
(Address of Principal Executive Offices)

**73134**  
(Zip code)

**(405) 848-8807**

(Registrant's Telephone Number, Including Area Code)

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
<b>Common Stock, par value \$0.01 per share</b>	<b>The NASDAQ Stock Market LLC</b>
Securities registered pursuant to Section 12(g) of the Act: <b>None</b>	

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant computed as of June 30, 2009, based on the closing price of the common stock on the NASDAQ Global Select Market on June 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter (\$6.85 per share) was \$182,710,913.

As of March 1, 2010, 42,697,402 shares of the registrant's common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Gulfport Energy Corporation's Proxy Statement for the 2010 Annual Meeting of Stockholders are incorporated by reference in Items 9, 10, 11, 12 and 13 of Part III of this Form 10-K.



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**FORWARD-LOOKING STATEMENTS**

Our disclosure and analysis in this Form 10-K may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms such as may, will, should, could, would, expects, plans, anticipates, intends, believes, estimates, projects, and similar expressions intended to identify forward-looking statements. All statements, other than statements of historical facts, included in this Form 10-K that address activities, events or developments that we expect or anticipate will or may occur in the future, including such things as estimated future net revenues from oil and gas reserves and the present value thereof, future capital expenditures (including the amount and nature thereof), business strategy and measures to implement strategy, competitive strength, goals, expansion and growth of our business and operations, plans, references to future success, reference to intentions as to future matters and other such matters are forward-looking statements.

These forward-looking statements are largely based on our expectations and beliefs concerning future events, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control.

Although we believe our estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. Management cautions all readers that the forward-looking statements contained in this Form 10-K are not guarantees of future performance, and we cannot assure any reader that those statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the factors listed in the Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations sections and elsewhere in this Form 10-K. All forward-looking statements speak only as of the date of this Form 10-K. We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as required by law. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

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**PART I**

**ITEM 1. DESCRIPTION OF BUSINESS**

**General**

We are an independent oil and natural gas exploration and production company with our principal producing properties located along the Louisiana Gulf Coast in the West Cote Blanche Bay, or WCBB, and Hackberry fields, and in West Texas in the Permian Basin. We also hold a significant acreage position in the Alberta oil sands in Canada through our interest in Grizzly Oil Sands ULC, or Grizzly, and have interests in entities that operate in Southeast Asia, including the Phu Horm gas field in Thailand. We seek to achieve reserve growth and increase our cash flow through our annual drilling programs.

In 2009, at our WCBB field, we recompleted 56 wells and drilled 11 wells for a total cost of approximately \$19.6 million as of December 31, 2009. Of our 11 new wells drilled at WCBB in 2009, 10 were completed as producing wells and one was non-productive. During 2010, we currently anticipate drilling 20 wells and recompleting 40 wells at our WCBB field for an estimated aggregate cost of \$33.0 to \$36.0 million. In December 2009, production at WCBB was 116,637 net barrels of oil equivalent, or BOE, or an average of 3,762 BOE per day, 97% of which was from oil and 3% of which was from natural gas. From January 1, 2010 through February 28, 2010, our average net daily production at WCBB was 3,432 BOE, 98% of which was from oil and 2% of which was from natural gas.

In 2009, at our East Hackberry field, we recompleted five wells and drilled six wells for a total cost of approximately \$11.0 million as of December 31, 2009. All wells drilled during 2009 were completed as producing wells. During 2010, we currently anticipate drilling three wells and recompleting five wells for an aggregate estimated cost of \$6.0 to \$7.0 million. In December 2009, net production at East Hackberry was 13,284 BOE, or an average of 429 BOE per day, 96% of which was from oil and 4% of which was from natural gas. From January 1, 2010 through February 28, 2010, our average net daily production at East Hackberry was 814 BOE, 96% of which was from oil and 4% of which was from natural gas.

In December 2009, net production at West Hackberry was 1,202 BOE, or an average of 39 BOE per day, 100% of which was from oil. From January 1, 2010 through February 28, 2010, our average net daily production at West Hackberry was 44 BOE, 100% of which was from oil.

Effective November 1, 2007, we acquired approximately 4,100 net acres in West Texas in the Permian Basin with production at the time of acquisition from 32 gross wells, predominately from the Wolfcamp formation. In 2008, 31 gross (15.5 net) wells were drilled on this acreage. In 2009, we acquired an additional 4,095 net acres, bringing our total net acreage position in the Permian Basin to approximately 8,200 net acres. During the year ended December 31, 2009, we drilled four gross wells and recompleted three gross wells on this acreage. As of March 1, 2010, three of the four wells had been completed and the other well was awaiting completion. We currently anticipate drilling 24 to 26 gross (12 to 13 net) wells on this acreage in 2010 for an estimated aggregate cost of \$15.0 to \$17.0 million. In December 2009, net production from our Permian acreage was 17,030 BOE, or an average of 549 BOE per day, 82% of which was from oil and natural gas liquids and 18% of which was from natural gas. From January 1, 2010 through February 28, 2010, our average daily net production from our Permian acreage was 507 BOE per day, 82% of which was from oil and natural gas liquids and 18% of which was from natural gas.

During the third quarter of 2006, we, through our wholly-owned subsidiary Grizzly Holdings Inc., purchased a 24.9% interest in Grizzly. The remaining interests in Grizzly are owned by entities controlled by Wexford. During 2006 and 2007, Grizzly acquired leases in the Athabasca region located in the Alberta Province near Fort McMurray near other oil sands development projects. Grizzly has approximately 527,000 acres under lease and our total net investment in Grizzly was approximately \$41.0 million, including a note receivable of \$15.9 million, at December 31, 2009. During the 2006/2007, 2007/2008 and 2008/2009 winter delineation drilling seasons, Grizzly drilled an aggregate of 131 core holes and one water supply test well, tested five

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separate lease blocks and conducted a seismic program. Grizzly recently filed an application in Alberta, Canada for the development of an 11,300 barrel per day oil sand project at Algar Lake, and its currently contemplated 2010 activities relate primarily to initial preparations for this facility.

During 2005, we purchased a 23.5% ownership interest in Tatex Thailand II, LLC, or Tatex. The remaining interests in Tatex are owned by entities controlled by Wexford Capital, LP, or Wexford. Affiliates of Wexford beneficially own approximately 36% of our outstanding common stock. Tatex, a privately held entity, holds 85,122 of the 1,000,000 outstanding shares of APICO, LLC, or APICO, an international oil and gas exploration company. APICO has a reserve base located in Southeast Asia through its ownership of concessions covering three million acres which includes the Phu Horm Field.

We also own a 17.9% ownership interest in Tatex Thailand III, LLC, or Tatex III. Approximately 68.7% of the remaining interests in Tatex III are owned by entities controlled by Wexford. Tatex III owns a concession covering one million acres. During 2009, the operator conducted a 3-D seismic survey on this concession. During 2010, we expect to participate in the drilling of two wells.

During 2005, we purchased a 20% ownership interest in Windsor Bakken, LLC, or Bakken. In 2006, Bakken acquired leases for undeveloped acreage in the Williston Basin area of western North Dakota and eastern Montana. Effective January 1, 2008, we acquired a direct, undivided 20% interest in Bakken's assets in redemption of our 20% interest in Bakken. During May 2009, we sold approximately 12,270 net acres and approximately 190 net BOEPD of production for approximately \$13.0 million, with an effective date of April 1, 2009. During September 2009, we sold approximately 5,721 net acres for \$5.8 million with an effective date of July 1, 2009. As of December 31, 2009, we held approximately 900 net acres and interests in 28 wells, as well as certain wells that might be drilled in the future.

In December 2009, net production from our remaining Bakken acreage was 2,092 BOE, or an average of 67 BOE per day, 97% of which was from oil and natural gas liquids and 3% of which was from natural gas. From January 1, 2010 through February 28, 2010, our average daily net production from our Bakken acreage was 66 BOE per day, 95% of which was from oil and 5% of which was from natural gas.

As of December 31, 2009, we had 19.9 million barrels of oil equivalent, or MMBOE, of proved reserves with a present value of estimated future net revenues, discounted at 10%, or PV-10, of approximately \$263 million and associated standardized measure of discounted future net cash flows of approximately \$240.8 million. See Item 2. Properties Proved Oil and Natural Gas Reserves for our definition of PV-10, a non-GAAP financial measure, and a reconciliation of our standardized measure of discounted future net cash flows to PV-10.

**Principal Oil and Natural Gas Properties**

The following table presents certain information as of December 31, 2009 reflecting our net interest in our principal producing oil and natural gas properties along the Louisiana Gulf Coast, in the Permian Basin in West Texas and in the Williston Basin.

Field	NRI/WI (1) Percentages	Productive Wells (2)		Non-Productive Wells		Developed Acreage (3)		Proved Reserves		
		Gross	Net	Gross	Net	Gross	Net	Gas Mboe	Oil Mboe	Total Mboe
West Cote Blanche Bay Field (4)	80.108/100	95	95	181	181	5,668	5,668	262	5,028	5,290
E. Hackberry Field (5)	79.424/100	18	18	86	86	3,291	3,291	308	2,490	2,798
W. Hackberry Field	87.5/100	3	3	24	24	592	592		172	172
Permian Basin	38.075/49.48	64	32			8,157	4,078	1,816	9,763	11,579
Williston Basin (6)	3.08/4.10	4	1			2,560	127	2	32	34
Overrides/Royalty Non-operated	Various	32	1	17	2			1	3	4
<b>Total</b>		<b>216</b>	<b>150</b>	<b>308</b>	<b>293</b>	<b>20,268</b>	<b>13,756</b>	<b>2,389</b>	<b>17,488</b>	<b>19,877</b>

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- (1) Net Revenue Interest (NRI)/Working Interest (WI).
- (2) Includes nine gross and net wells at WCBB that are producing intermittently.
- (3) Developed acres are acres spaced or assigned to productive wells. Approximately 68% of our acreage is developed acreage and has been perpetuated by production.
- (4) We have a 100% working interest (80.108% average NRI) from the surface to the base of the 13900 Sand which is located at 11,320 feet. Below the base of the 13900 Sand, we have a 40.40% non-operated working interest (29.95% NRI).
- (5) NRI shown is for producing wells.
- (6) NRI/WI is from wells that have been drilled or in which we have elected to participate.

**West Cote Blanche Bay Field**

*Location and Land*

The WCBB field is located approximately five miles off the coast of Louisiana in a shallow bay with water depths averaging eight to ten feet. We own a 100% working interest (80.108% net revenue interest, or NRI), and are the operator, in depths above the base of the 13900 Sand which is located at 11,320 feet. In addition, we own a 40.40% non-operated working interest (29.95% NRI) in depths below the base of the 13900 Sand, which is operated by Chevron Corporation. Our leasehold interests at WCBB contain 5,668 gross acres.

*Area History and Production*

Texaco, now Chevron Corporation, drilled the discovery well in this field in 1940 based on a seismic and gravitational anomaly. WCBB was subsequently developed on an even 160-acre pattern for much of the remainder of the decade. Developmental drilling continued and reached its peak in the 1970s when over 300 wells were drilled in the field. Of the 919 wells drilled as of December 31, 2009, 826 were completed as producing wells. As a result, the field has a historic success rate of 90% for all wells drilled. From the date of our acquisition of WCBB in 1997 through December 31, 2009, we drilled 139 new wells, 16 of which were non-productive, for an 88% success rate. As of December 31, 2009, estimated field cumulative gross production was 190.1 MMBOE and 236.1 billion cubic feet, or Bcf, of gas. Of the 919 wells drilled in WCBB as of December 31, 2009, 86 were producing, 181 were shut-in, nine were producing intermittently and five were being used as salt water disposal wells. The other 638 wells have been plugged and abandoned.

In 1991, Texaco conducted a 70 square mile 3-D seismic survey with 1,100 shot points per mile that processed out 100 fold. In 1993, an undershoot survey around the crest and production facilities was completed. We own the rights to the seismic data. In December 1999, we completed the reprocessing of the seismic data and our technical staff developed prospects from the data. The reprocessed data has enabled us to identify prospects in areas of the field that would have otherwise remained obscure. During the first half of 2005, we again reprocessed the seismic data using advanced seismic data processing.

*Geology*

WCBB overlies one of the largest salt dome structures on the Gulf Coast. The field is characterized by a piercement salt dome, which created traps from the Pleistocene through the Miocene formations. The relative movements affected deposition and created a complex system of fault traps. The compensating fault sets generally trend northwest to southeast and are intersected by sets having a major radial component. Later-stage movement caused extension over the dome and a large graben system (a downthrown area bounded by normal faults) was formed.

There are over 100 distinct sandstone reservoirs recognized throughout most of the field, and nearly 200 major and minor discrete intervals have been tested. Within the 919 wellbores that had been drilled in the field as of December 31, 2009, over 4,000 potential zones have been penetrated. These sands are highly porous and permeable reservoirs primarily with a strong water drive.



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WCBB is a structurally and stratigraphically complex field. All of the proved undeveloped, or PUD, locations at WCBB are adjacent to faults and abut at least one fault. Our drilling programs are designed to penetrate each PUD trap with a new wellbore in a structurally optimum position, usually very close to the fault seal. The majority of these wells have been, and new wells drilled in connection with our drilling programs will be, directionally drilled using steering tools and downhole motors. The tolerance for error in getting near the fault is low, so the complex faulting does introduce the risk of crossing the fault before encountering the zone of interest, which could result in part or all of the zone being absent in the borehole. This, in turn, can result in lower than expected or no reserves for that zone. The new wellbores eliminate the mechanical risk associated with trying to produce the zone from an old existing wellbore, while the wellbore locations are selected in an effort to more efficiently drain each reservoir. The vast majority of the PUD targets are up-dip offsets to wells that produced from a sub-optimal position within a particular zone. Our inventory of prospects at WCBB as of December 31, 2009 included 21 PUD wells. The drilling schedule used in the reserve report anticipates that all of those wells will be drilled by 2012.

#### *Facilities*

We own and operate a production facility at WCBB that includes four production tank batteries, six natural gas compressors, a dehydration unit and a salt water disposal system.

#### *Recent and Future Activity*

In 2009, we recompleted 56 wells and drilled 11 wells at WCBB. Of these 11 new wells, 10 were completed as producers, and one was non-productive. As of February 28, 2010, we had recompleted eight wells during 2010. Of the 11 wells drilled in 2009, none were considered deep wells. The ten productive wells, with total depths ranging from 2,500 to 10,325 feet, have approximately 1,077 feet of aggregate apparent net pay. We currently anticipate drilling 20 wells and recompleting 40 wells at WCBB during 2010.

#### *Production Status*

In December 2009, production at WCBB was 116,637 net BOE, or an average of 3,762 BOE per day, 97% of which was from oil and 3% of which was from natural gas. From January 1, 2010 through February 28, 2010, our average net daily production at WCBB was 3,432 BOE, 98% of which was from oil and 2% of which was from natural gas.

### **East Hackberry Field**

#### *Location and Land*

The East Hackberry field in Louisiana is located along the western shore and the land surrounding Lake Calcasieu, 15 miles inland from the Gulf of Mexico. We own a 100% working interest (approximately 79.424% average NRI) in certain producing oil and natural gas properties situated in the East Hackberry field. We hold beneficial interests in approximately 7,738 acres, including the Erwin Heirs Block, which is located on land, and the adjacent State Lease 50 Block, which is located primarily in the shallow waters of Lake Calcasieu.

#### *Area History and Production*

The East Hackberry field was discovered in 1926 by Gulf Oil Company, now Chevron Corporation, by a gravitational anomaly survey. The massive shallow salt stock presented an easily recognizable gravity anomaly indicating a productive field. Initial production began in 1927 and has continued to the present. The estimated cumulative oil and condensate production through 2009 was over 597,172 barrels of oil and 330 Bcf of casinghead gas production. A total of 193 wells have been drilled on our portion of the field. As of December 31, 2009, 18 wells had daily production, 86 were shut-in and two had been converted to salt water disposal wells. The remaining 87 wells had been plugged and abandoned.

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#### *Geology*

The Hackberry field is a major salt intrusive feature, elliptical in shape as opposed to a classic dome, divided into east and west field entities by a saddle. Structurally, our East Hackberry acreage is located on the eastern end of the Hackberry salt ridge. There are over 30 pay zones at this field. The salt intrusion formed a series of structurally complex and steeply dipping fault blocks in the Lower Miocene and Oligocene age rocks. These fault blocks serve as traps for hydrocarbon accumulation. Our wells currently produce from perforations found between 5,100 and 12,200 feet.

#### *Facilities*

We have a field office that serves both the East and West Hackberry fields. In addition, we completed installation of a new production barge at the East Hackberry field in the second quarter of 2007. The barge is designed to have the ability to process on a per day basis approximately 5,000 barrels of liquid, 30 Mmcf of high pressure natural gas, 6.5 Mmcf of low pressure natural gas and 10,000 barrels of salt water.

#### *Recent and Future Activity*

During 2005, we completed a proprietary 42 square mile 3-D seismic survey at East Hackberry, the first modern seismic program undertaken at this field. We believe that this 3-D seismic data enhances our probability of drilling success, and we continue to evaluate the 3-D seismic data to identify additional drilling locations. During 2009 at East Hackberry, we recompleted five wells and drilled four land wells and two wells on water. All of the six wells drilled during 2009 were completed as producing wells. As of February 28, 2010, we had not recompleted or drilled any wells during 2010. We currently intend to drill three land wells and recomplete five wells at East Hackberry during 2010.

#### *Production Status*

In December 2009, net production at East Hackberry was 13,284 BOE, or an average of 429 BOE per day, 96% of which was from oil and 4% of which was from natural gas. From January 1, 2010 through February 28, 2010, our average net daily production at East Hackberry was 814 BOE, 96% of which was from oil and 4% of which was from natural gas. Production has increased as a result of the successful drilling and completion of four wells during the fourth quarter of 2009.

### **West Hackberry Field**

#### *Location and Land*

The West Hackberry field is located on land and is five miles west of Lake Calcasieu in Cameron Parish, Louisiana, approximately 85 miles west of Lafayette and 15 miles inland from the Gulf of Mexico. We own a 100% working interest (approximately 87.5% NRI) in 592 acres within the West Hackberry field. Our leases at West Hackberry are located within two miles of one of the United States Department of Energy's Strategic Petroleum Reserves.

#### *Area History*

The first discovery well at West Hackberry was drilled in 1938 and the field was developed by Superior Oil Company, now ExxonMobil Corporation, between 1938 and 1988. The estimated cumulative oil and condensate production through 2009 was 261 MBOE and 140 Bcf of natural gas. There have been 36 wells drilled to date on our portion of West Hackberry. Currently, three are producing, 24 are shut-in and one has been converted to a saltwater disposal well. The remaining eight wells have been plugged and abandoned.

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#### *Geology*

Structurally, our West Hackberry acreage is located on the western end of the Hackberry salt ridge. There are over 30 pay zones at this field. West Hackberry consists of a series of fault-bounded traps in the Oligocene-age Vincent and Keough sands associated with the Hackberry Salt Ridge. Recoveries from these thick, porous, water-drive reservoirs have resulted in per well cumulative production of almost 700 MBOE.

#### *Production Status*

In December 2009, net production at West Hackberry was 1,202 BOE, or 39 BOE per day. From January 1, 2010 through February 28, 2010, our average net daily production at West Hackberry was 44 BOE and was 100% oil.

#### *Facilities*

We have land-based production and processing facilities located at the West Hackberry field and maintain a field office that serves both the East and West Hackberry fields.

### **Permian Basin (West Texas)**

#### *Location and Land*

We acquired approximately 4,100 net acres in West Texas (near Midland) in the Permian Basin on December 20, 2007, effective date as of November 1, 2007, from ExL Petroleum, LP and certain other sellers. Subsequently, we acquired an additional 4,095 net acres, bringing our total acreage position to approximately 8,200 net acres as of December 31, 2009. The Permian Basin area covers a significant portion of western Texas and eastern New Mexico and is considered one of the major producing basins in the United States. The terrain in the Permian Basin is semi-arid mesquite-mixed grassland steppe. Windsor Energy is the operator of this field.

#### *Area History*

The Permian Basin formed as an area of rapid Mississippian-Pennsylvanian subsidence in the foreland of the Ouachita Foldbelt. The Wolfcamp play was a long-established reservoir in West Texas, first found in the 1950s as wells aiming for deeper targets occasionally intersected slump blocks or reef facies with reservoir properties. Exploration with 2-D seismic located additional fields, but it was not until the use of 3-D seismic in the 1990s that the greater extent of the Wolfcamp prospects was revealed. During the late 1990s, Arco began a drilling program targeting the Spraberry formation at 10,000 feet and then drilled another 200 to 300 feet to pick up the upper part of the Wolfcamp formation. Henry Petroleum, a private firm, owned interest in the Pegasus field in Midland and Upton counties. While drilling in the same area as the Arco project, Henry Petroleum decided to drill completely through the Wolfcamp section as Devonian wells. Henry Petroleum mapped the trend and began acquiring acreage and drilling wells using multiple slick-water fracs across the entire Wolfcamp interval. In 2005, former members of Henry Petroleum's Wolfcamp team formed their own private company, ExL Petroleum, and began replicating Henry Petroleum's program. After ExL had drilled 32 productive Wolfcamp/Spraberry wells through late 2007, they decided to monetize approximately 15% of their acreage position which enabled us to participate in this play. Recent advancements in enhanced recovery techniques continue to make the basin an active play for exploration and production companies. As of December 31, 2009, we hold interests in 64 gross producing wells.

#### *Geology*

The Wolfcamp/Spraberry play, which we refer to as Wolfberry, of the Midland Basin lies in the area where the historically productive Spraberry trend geographically overlaps the productive area of the emerging Wolfcamp carbonate play. The Wolfcamp is characterized by an approximately 2,000 feet section of organic rich basin floor debris flows shed from the Central Basin Platform. The best reservoir rock within the section is generally found in close proximity to the Central Basin Platform.

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Wolfberry well reserves are typically approximately 80% from the Wolfcamp section and 20% from the Spraberry section. Pinnacle Energy Services, LLC, an independent petroleum engineering firm, has estimated that at December 31, 2009, proved reserves net to our interest in these assets were approximately 11.6 million BOE, of which 12% were classified as proved developed producing, or PDP. Proved undeveloped, or PUD, reserves included in this estimate were from 191 gross well locations on 40-acre units. The proved reserves are located in the Wolfcamp and Spraberry formations, which are generally characterized as long-lived, with predictable production profiles.

*Production Status*

In December 2009, net production from the Permian field was 17,030 BOE, or an average of 549 BOE per day, 82% of which was from oil and natural gas liquids, and 18% of which was from natural gas. From January 1, 2010 through February 28, 2010, our average daily net production from our Permian acreage was 507 BOE per day, 82% of which was from oil and natural gas liquids and 18% of which was from natural gas. As a result of the reduction of drilling, fracing and recompletion activities, production has decreased since year end due to normal production declines.

*Facilities*

There are typical land oil and gas processing facilities in the Permian Basin. Our facilities located at well locations include storage tank batteries, oil/gas/water separation equipment and pumping units.

*Recent and Future Activity*

In 2009, four gross (two net) wells were drilled in our Permian acreage. We have identified 191 gross future development drilling locations. We currently expect an estimated 24 to 26 gross (12 to 13 net) wells to be drilled on our acreage in 2010. The wells are expected to be drilled to approximately 10,200 feet.

**Bakken**

*Location and Land*

The Bakken Shale is located in the Williston Basin areas of western North Dakota and eastern Montana. During 2005, we purchased a 20% ownership interest in Windsor Bakken, LLC, or Bakken. The remaining interests in Bakken were owned by entities controlled by Wexford. Beginning in 2005, Bakken acquired leases on undeveloped acreage in the Williston Basin. As of December 31, 2007, Bakken had commenced participating in the drilling of some of its undeveloped acreage. Effective January 1, 2008, we acquired a direct, undivided 20% interest in Bakken's assets in redemption of our 20% interest in Bakken. During May 2009, we sold approximately 12,270 net acres and approximately 190 net BOEPD of production for approximately \$13.0 million, with an effective date of April 1, 2009. During September 2009, we sold approximately 5,721 net acres for approximately \$5.8 million with an effective date of July 1, 2009. As of December 31, 2009, we held approximately 900 net acres and interests in 28 wells, as well as interests in certain wells that might be drilled in the future.

*Production Status*

In December 2009, net production from our Bakken acreage was 2,092 BOE, or an average of 67 BOE per day, 97% of which was from oil and natural gas liquids and 3% of which was from natural gas. From January 1, 2010 through February 28, 2010, our average net daily production from this acreage was 66 BOE, of which 95% was from oil and 5% was from natural gas liquids.

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There are typical land oil and gas processing facilities in the Williston Basin. The facilities located at well locations include storage tank batteries, oil/gas/water separation equipment and pumping units.

*Recent and future activities*

As a result of the sale transactions described above, we have no activities currently scheduled for 2010 in the Williston Basin.

**Additional Properties**

*Louisiana.* In addition to our interests in the WCBB, East Hackberry and West Hackberry fields, we also own working interests and overriding royalty interest in various fields in Louisiana as described in the following table:

Field	Parish	Acreage Working Interest	Overriding Royalty Interests	Producing Wells	Non-Producing Wells
Bayou Long	Iberia	3.125%	0%	0	0
Bayou Penchant	Terrebonne	3.125%	0%	1	6
Bayou Pigeon	Iberia	6.250%	0%	4	5
Deer Island	Terrebonne	6.250%	0%	0	6
Golden Meadow	Lafourche	3.125%	0%	0	1
Napoleonville	Assumption	0%	2.5%	3	0

*Thailand.* During 2005, we purchased a 23.5% ownership interest in Tatex Thailand II, LLC, or Tatex, at a cost of \$2.4 million. The remaining interests in Tatex are owned by entities controlled by Wexford. Tatex, a privately held entity, holds 85,122 of the 1,000,000 outstanding shares of APICO, LLC, or APICO, an international oil and gas exploration company. APICO has a reserve base located in Southeast Asia through its ownership of concessions covering three million acres which includes the Phu Horm Field. During the year ended December 31, 2009 we paid \$320,000 in cash calls and received \$517,000 in distributions, bringing our total investment in Tatex (including previous investments) to \$2.5 million. Our investment is accounted for on the equity method. Tatex accounts for its investment in APICO using the cost method. In December 2006, first gas sales were achieved at the Phu Horm field located in northeast Thailand. Phu Horm's initial gross production was approximately 60 million cubic feet per day. For December 2009, net gas production was approximately 83 MMcf per day and condensate production was 452 Bbl's per day. Hess Corporation operates the field with a 35% interest. Other interest owners include APICO (35% interest), PTTEP (20% interest) and ExxonMobil (10% interest). Our gross working interest (through Tatex as a member of APICO) in the Phu Horm field is 0.7%. Estimated proved reserves from the Phu Horm field as of December 31, 2008, net to our interest, are 2.739 BCF of gas. Due to the fact that our ownership in the Phu Horm field is indirect and Tatex's investment in APICO is accounted for by the cost method, these reserves are not included in our year-end reserve information.

During the first quarter of 2008, we purchased a 5% ownership interest in Tatex Thailand III, LLC, or Tatex III, at a cost of \$850,000. In December 2009, we purchased an additional approximately 12.9% ownership interest at a cost of approximately \$3,385,000 bringing our total ownership interest to approximately 17.9%. Approximately 68.7% of the remaining interests in Tatex III are owned by entities controlled by Wexford. During the year ended December 31, 2009, we paid \$428,000 in cash calls, bringing our total investment in Tatex III to \$4,482,000. Currently, we plan to participate in the drilling of two wells during 2010.

*Grizzly Oil Sands.* During the third quarter of 2006, we, through our wholly-owned subsidiary Grizzly Holdings Inc., purchased a 24.9% interest in Grizzly. The remaining interests in Grizzly are owned by entities controlled by Wexford. During 2006 and 2007, Grizzly acquired leases in the Athabasca region located in the

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Alberta Province near Fort McMurray near other oil sands development projects. Grizzly has approximately 527,000 acres under lease and our total net investment in Grizzly was approximately \$41.0 million, including a note receivable of \$15.9 million, at December 31, 2009. During the 2006/2007, 2007/2008 and 2008/2009 winter delineation drilling seasons, Grizzly drilled an aggregate of 131 core holes and one water supply test well, tested five separate lease blocks and conducted a seismic program. Grizzly recently filed an application in Alberta, Canada for the development of an 11,300 barrel per day oil sand project at Algar Lake, and its currently contemplated 2010 activities relate primarily to initial preparations for the facility.

**Competition and Markets**

The oil and natural gas industry is intensely competitive, and we compete with other companies that have greater resources. Many of these companies not only explore for and produce oil and natural gas, but also carry on midstream and refining operations and market petroleum and other products on a regional, national or worldwide basis. These competitors may be better positioned to take advantage of industry opportunities and to withstand changes affecting the industry, such as fluctuations in oil and natural gas prices and production, the availability of alternative energy sources and the application of government regulation.

The availability of a ready market for any oil and/or natural gas we produce depends on numerous factors beyond the control of our management, including but not limited to the demand for oil and natural gas and the level of domestic production and imports of oil, the proximity and capacity of gas pipelines, the availability of skilled labor, materials and equipment, the effect of state and federal regulation of oil and natural gas production and federal regulation of gas sold in interstate commerce. The oil and natural gas we produce in Louisiana is sold to purchasers who service the areas where our wells are located. We sell the majority of our oil to Shell Trading Company, or Shell. Shell takes custody of the oil at the outlet from our oil storage barge. Our production from WCBB, other than the production sold under forward sales contracts, is being sold in accordance with the Shell posted price for West Texas/New Mexico Intermediate crude plus or minus Platt's trade month average P+ value, plus or minus the Platt's HLS/WTI trade month average differential less \$3.45 per barrel for transportation. During 2009, we sold 92% and 7% of our oil production to Shell and Windsor Energy Group, the operator of our Permian wells, respectively, and 45%, 38%, and 16% of our natural gas production to Windsor Energy Group, Chevron and Hilcorp Energy Company, respectively. During 2008, we sold 87% of our oil production to Shell and 11% to Windsor Energy Group, 100% of our natural gas liquids production to Windsor Energy Group, and 60%, 22%, and 16% of our natural gas production to Chevron, Windsor Energy Group, and Hilcorp Energy Company, respectively. During 2007, we sold 99% of our oil production to Shell and 69% and 23% of our natural gas production to Chevron and Hilcorp, respectively. We may not continue to have ready access to suitable markets for our future oil and natural gas production.

Oil and natural gas prices can be extremely volatile and are subject to substantial seasonal, political and other fluctuations. The prices at which the oil and natural gas we produce may be sold is uncertain and it is possible that under some market conditions the production and sale of oil and natural gas from some or all of our properties may not be economical. Because of all of the factors influencing the price of oil and natural gas, it is impossible to accurately predict future prices.

To mitigate the effects of commodity price fluctuations, during 2009, we were party to forward sales contracts for the sale of 825,000 barrels of WCBB production at a weighted average price of \$55.01 per barrel before transportation costs. We delivered approximately 49% of our 2009 production under these agreements. Initially, for the period January through December 2009, we had entered into agreements to sell 3,000 barrels of WCBB production per day at a weighted average daily price of \$89.06 per barrel before transportation costs. In December 2008, we terminated these 2009 forward sales contracts in exchange for \$39.0 million in cash. Subsequently, we entered into forward sales contracts for the sale of 3,000 barrels of WCBB production per day at a weighted average daily price of \$55.17 per barrel, before transportation costs, for the period April 2009 to August 2009. We also entered into forward sales contracts for the sale of 3,000 barrels of WCBB production per day at a weighted average daily price of \$54.81 per barrel, before transportation costs, for the period September

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2009 to December 2009. In 2009, we terminated forward sales contracts for the months of March and May 2009 for an aggregate of approximately \$2.0 million. For the period January 2010 through February 2010 we entered into forward sales contracts for the sale of 3,000 barrels of WCBB production per day at a weighted average daily price of \$54.81 per barrel, before transportation costs. For the period March 2010 through December 2010, we have entered into forward sales contracts for the sale of 2,300 barrels of WCBB production per day at a weighted average daily price of \$58.24 per barrel, before transportation costs. Under these contracts, we have committed to deliver approximately 45% of our estimated 2010 production. Such arrangements may expose us to risk of financial loss in certain circumstances, including instances where production is less than expected or oil prices increase. In addition, these arrangements may limit the benefit to us of increases in the price of oil. These forward sales contracts are accounted for as cash flow hedges and recorded at fair value pursuant to FASB ASC 815, *Derivatives and Hedging*, and related pronouncements.

**Regulation**

*Regulation of Gas and Oil Production*

Oil and natural gas operations such as ours are subject to various types of legislation, regulation and other legal requirements enacted by governmental authorities. This legislation and regulation affecting the oil and natural gas industry is under constant review for amendment or expansion. Some of these requirements carry substantial penalties for failure to comply. The regulatory burden on the oil and natural gas industry increases our cost of doing business and, consequently, affects our profitability.

We own interests in a number of producing oil and natural gas properties located along the Louisiana Gulf Coast, West Texas and the Williston Basin. These states regulate the production and sale of oil and natural gas, including requirements for obtaining drilling permits, the method of developing new fields and the spacing and operation of wells. In addition, regulations governing conservation matters aimed at preventing the waste of oil and natural gas resources could affect the rate of production and may include maximum daily production allowables for wells on a market demand or conservation basis.

*Environmental Regulation*

Our oil and natural gas exploration, development and production operations are subject to stringent laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Numerous governmental agencies, such as the U.S. Environmental Protection Agency, or EPA, issue regulations which often require difficult and costly compliance measures that carry substantial administrative, civil and criminal penalties and may result in injunctive obligations for failure to comply. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentrations of various substances that can be released into the environment in connection with drilling and production activities, limit or prohibit construction or drilling activities on certain lands lying within wilderness, wetlands, ecologically sensitive and other protected areas, require action to prevent or remediate pollution from current or former operations, such as plugging abandoned wells or closing pits, and impose substantial liabilities for pollution resulting from our operations or relate to our owned or operated facilities. The strict liability nature of such laws and regulations could impose liability upon us regardless of fault. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly pollution control or waste handling, storage, transport, disposal or cleanup requirements could materially adversely affect our operations and financial position, as well as the oil and natural gas industry in general. Our management believes that we are in substantial compliance with applicable environmental laws and regulations and we have not experienced any material adverse effect from compliance with these environmental requirements. This trend, however, may not continue in the future.

*Waste Handling.* The Resource Conservation and Recovery Act, or RCRA, and comparable state statutes and regulations promulgated thereunder, affect oil and natural gas exploration, development and production activities by imposing requirements regarding the generation, transportation, treatment, storage, disposal and

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cleanup of hazardous and non-hazardous wastes. With federal approval, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. Although most wastes associated with the exploration, development and production of crude oil and natural gas are exempt from regulation as hazardous wastes under RCRA, such wastes may constitute solid wastes that are subject to the less stringent requirements of non-hazardous waste provisions. However, there can be no assurance that the EPA or the state or local governments will not adopt more stringent requirements for the handling of non-hazardous wastes or categorize some non-hazardous wastes as hazardous for future regulation. Indeed, legislation has been proposed from time to time to re-categorize certain oil and natural gas exploration, development and production wastes as hazardous wastes.

Administrative, civil and criminal penalties can be imposed for failure to comply with waste handling requirements. We believe that we are in substantial compliance with applicable requirements related to waste handling, and that we hold all necessary and up-to-date permits, registrations and other authorizations to the extent that our operations require them under such laws and regulations. Although we do not believe that the current costs of managing our wastes as they are presently classified to be significant, any legislative or regulatory reclassification of oil and natural gas exploration and production wastes could increase our costs to manage and dispose of such wastes.

*Comprehensive Environmental Response, Compensation and Liability Act.* The Comprehensive Environmental Response, Compensation and Liability Act, also known as CERCLA or the Superfund law, generally imposes joint and several liability, without regard to fault or legality of conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include the current owner or operator of a contaminated facility, a former owner or operator of the facility at the time of contamination and those persons that disposed or arranged for the disposal of the hazardous substance. Under CERCLA and comparable state statutes, such persons may be subject to strict joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. In the course of our operations, we use materials that, if released, would be subject to CERCLA and comparable state statutes. Therefore, governmental agencies or third parties may seek to hold us responsible under CERCLA and comparable state statutes for all or part of the costs to clean up sites at which such hazardous substances have been released.

*Water Discharges.* The Federal Water Pollution Control Act of 1972, as amended, also known as the Clean Water Act, the Oil Pollution Act and analogous state laws and regulations promulgated thereunder impose restrictions and strict controls regarding the discharge of pollutants, including produced waters and other gas and oil wastes, into state waters or waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or the state. These laws and regulations also prohibit certain activity in wetlands unless authorized by a permit issued by the U.S. Army Corps of Engineers. The EPA has also adopted regulations requiring certain oil and natural gas exploration and production facilities to obtain permits for storm water discharges. Costs may be associated with the treatment of wastewater or developing and implementing storm water pollution prevention plans. We believe that we have obtained or applied for and are in substantial compliance with all permits required under the Clean Water Act. Sanctions for failure to comply with Clean Water Act requirement include administrative, civil and criminal penalties, as well as injunctive obligations.

*Air Emissions.* The federal Clean Air Act, and comparable state laws and regulations, regulate emissions of various air pollutants through the issuance of permits and the imposition of other requirements. The EPA has developed, and continues to develop, stringent regulations governing emissions of air pollutants at specified sources. Some of our new facilities will be required to obtain permits before work can begin, permits may be required for our facilities operations, and existing facilities may be required to incur capital costs to remain in compliance. These laws and regulations may increase the costs of compliance for some facilities we own or



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operate, and federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with air permits or other requirements of the federal Clean Air Act and associated state laws and regulations. We believe that we are in substantial compliance with all applicable air emissions regulations and that we hold all necessary and valid construction and operating permits for our operations. Obtaining or renewing permits has the potential to delay the development of oil and natural gas projects. Our air emissions may also soon be affected by rapidly emerging regulation of green house gases, such as carbon dioxide and methane, which are emitted in the course of oil and natural gas exploration and production.

**Operational Hazards and Insurance**

Our operations are subject to all of the risks normally incident to the production of oil and natural gas, including, but not limited to, blowouts, cratering, pipe failure, casing collapse, oil spills and fires, each of which could result in severe damage to or destruction of oil and natural gas wells, production facilities or other property, or injury or death to persons and wildlife. The energy business is also subject to environmental hazards, such as oil spills, gas leaks, and ruptures and discharge of toxic substances or gases that could expose us to substantial liability due to pollution and other environmental damage and consequences thereof, including personal injuries and property damage. We currently maintain insurance covering some, but not all of these risks. The occurrence of a significant event that is not fully insured against could have a material adverse effect on our financial position.

**Headquarters and Other Facilities**

We own a