

GEOPETRO RESOURCES CO  
Form 10-Q  
May 13, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(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, 2008

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

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# GeoPetro Resources Company

(Exact name of registrant as specified in its charter)

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**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, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

There were 32,700,970 shares of no par value common stock outstanding on May 13, 2008.

**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 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

## UNAUDITED CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2008    | December 31,<br>2007 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| <b>Current assets:</b>  |                      |                      |
| Cash and cash equivalents   | \$ 3,147,765         | \$ 4,294,565         |
| Trade accounts receivable oil and gas sales   | 848,043              | 965,188              |
| Accounts receivable other   | 535,763              | 345,862              |
| Prepaid expenses  | 97,869               | 118,065              |
| Total current assets  | 4,629,440            | 5,723,680            |
| <b>Oil and gas properties, at cost (full cost method):</b>  |                      |                      |
| Unevaluated properties  | 7,904,289            | 5,848,195            |
| Evaluated properties  | 47,584,533           | 47,428,750           |
| Less accumulated depletion and impairment   | (15,447,683)         | (14,917,700)         |
| Net oil and gas properties  | 40,041,139           | 38,359,245           |
| <b>Furniture, fixtures and equipment, at cost, net of depreciation</b>  | 23,980               | 26,727               |
| <b>Other assets deposits and other noncurrent assets</b>  | 7,436                | 6,954                |
| <b>Total Assets</b>   | <b>\$ 44,701,995</b> | <b>\$ 44,116,606</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                      |                      |
| <b>Current Liabilities:</b>   |                      |                      |
| Trade payables  | \$ 826,036           | \$ 666,293           |
| Production taxes payable  | 168,945              | 407,246              |
| Other taxes payable   | 30,726               | 161,032              |
| Royalty owners payable  | 1,265,584            | 979,743              |
| Net profits interest payable  | 280,147              | 147,513              |
| Total current liabilities   | 2,571,438            | 2,361,827            |
| <b>Asset Retirement Obligations</b>   | 55,022               | 53,726               |
| <b>Commitments and Contingencies (Notes 2 and 8)</b>  |                      |                      |
| <b>Shareholders Equity:</b>   |                      |                      |
| Common stock, no par value; 100,000,000 shares authorized; 31,950,970 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively | 52,645,168           | 52,645,168           |
| Additional paid-in capital  | 2,249,465            | 2,219,109            |
| Treasury stock, at cost, 1,257,043 shares held at March 31, 2008 and December 31, 2007, respectively  | (1,152,435)          | (1,152,435)          |
| Accumulated deficit   | (11,666,663)         | (12,010,789)         |

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|   |  |                      |           |                   |
|---|--|----------------------|-----------|-------------------|
| Total shareholders' equity                        |  | 42,075,535           |           | 41,701,053        |
| <b>Total Liabilities and Shareholders' Equity</b> |  | <b>\$ 44,701,995</b> | <b>\$</b> | <b>44,116,606</b> |

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

## GEOPETRO RESOURCES COMPANY

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | March 31,<br>2008  | March 31,<br>2007 |
| <b>Revenues</b>  |                    |                   |
| Oil and gas sales  | \$ 2,142,598       | \$ 1,823,342      |
| <b>Costs and expenses:</b>                                   |                    |                   |
| Lease operating expense                                      | 343,823            | 427,277           |
| General and administrative                                   | 715,423            | 759,356           |
| Net profits interest   | 228,061            | 184,204           |
| Depreciation and depletion expense                           | 534,430            | 576,942           |
| Total costs and expenses                                     | 1,821,737          | 1,947,779         |
| <b>Income (loss) from operations</b>                         | 320,861            | (124,437)         |
| <b>Other Income and (Expense):</b>                           |                    |                   |
| Interest expense   |                    | (86,182)          |
| Interest income  | 30,065             | 28,005            |
| Total other expense  | 30,065             | (58,177)          |
| <b>Net Income (Loss) Before Taxes</b>                        | 350,926            | (182,614)         |
| Income tax expense   | (6,800)            |                   |
| <b>Net Income (Loss) After Taxes</b>                         | 344,126            | (182,614)         |
| <b>Net Income (Loss) Available to Common Shareholders</b>    | \$ 344,126         | \$ (182,614)      |
| <b>Earnings (Loss) per Share:</b>                            |                    |                   |
| Basic  | \$ 0.01            | \$ (0.01)         |
| Diluted  | \$ 0.01            | \$ (0.01)         |
| <b>Weighted Average Number of Common Shares Outstanding:</b> |                    |                   |
| Basic  | 31,950,970         | 27,526,895        |
| Diluted  | 33,210,448         | 27,526,895        |

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

## GEOPETRO RESOURCES COMPANY

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | For the Three Months Ended |                   |
|--|----------------------------|-------------------|
|  | March 31,<br>2008          | March 31,<br>2007 |
| <b>Cash Flows From Operating Activities:</b>   |                            |                   |
| Net income (loss)  | \$ 344,126                 | \$ (182,614)      |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                            |                   |
| Depreciation and depletion   | 534,430                    | 576,942           |
| Share-based compensation expense   | 30,355                     | 34,935            |
| Non-cash interest expense  |                            | 38,742            |
| Accretion of discount on asset retirement obligations                                    | 1,037                      | 707               |
| Changes in operating assets and liabilities:   |                            |                   |
| (Increase) decrease in accounts receivable   | 117,145                    | (381,971)         |
| (Increase) decrease in other receivables   | (189,901)                  | 45,370            |
| Decrease in prepaid expenses   | 20,196                     | 57,475            |
| Deposits and other noncurrent assets   | (482)                      | (750)             |
| Increase in trade payables   | 159,744                    | 576,900           |
| Decrease in interest payable   |                            | (49,162)          |
| Decrease in dividends payable  |                            | (133,438)         |
| Decrease in production taxes payable   | (238,301)                  | (524,071)         |
| Decrease in other payable  | (130,308)                  | (5,590)           |
| Increase in royalty owners payable   | 285,841                    | 119,707           |
| Increase in net profit interest payable  | 132,636                    | 110,732           |
| Increase in asset retirement obligations   | 259                        | 471               |
| Net cash provided by operating activities  | 1,066,777                  | 284,385           |
| <b>Cash Flows from Investing Activities:</b>   |                            |                   |
| Oil and gas property expenditures  | (2,211,876)                | (945,895)         |
| Acquisition of furniture, fixtures & equipment   | (1,701)                    |                   |
| Net cash used in investing activities  | (2,213,577)                | (945,895)         |
| <b>Cash Flows from Financing Activities:</b>   |                            |                   |
| Proceeds from sale of common shares, option and warrant exercises, net                   |                            | 71,729            |
| Proceeds from promissory notes, net  |                            | 1,000,000         |
| Payments of loan fee   |                            | (57,000)          |
| Repayments of promissory notes   |                            | (100,000)         |
| Net cash provided by financing activities  |                            | 914,729           |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents:</b>                             | <b>(1,146,800)</b>         | <b>253,219</b>    |
| <b>Cash and Cash Equivalents:</b>  |                            |                   |
| Beginning of period  | 4,294,565                  | 734,561           |
| End of period  | \$ 3,147,765               | \$ 987,780        |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                                 |                            |                   |
| Cash paid for interest   | \$                         | \$ 47,440         |
| Cash paid for income taxes   | \$ 6,800                   | \$                |

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



**GEOPETRO RESOURCES COMPANY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

The interim consolidated financial statements of GeoPetro Resources Company ( we, us, our, GeoPetro or the Company ) are unaudited and contain all adjustments (consisting primarily of normal recurring accruals) necessary for a fair statement of the results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for a full year or for previously reported periods due in part, but not limited to, the volatility in crude oil and natural gas commodity prices, interest rates, estimates of reserves, drilling risks, geological risks, transportation restrictions, the timing of acquisitions, product demand, market competition, interruption in production and our ability to obtain additional capital. You should read these consolidated interim financial statements in conjunction with the audited consolidated financial statements and notes thereto included in GeoPetro's Annual Report on Form 10-K for the year ended December 31, 2007.

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

**2. LIQUIDITY:**

We hold working interests in undeveloped leases, seismic options, lease options and foreign concessions and we have participated in seismic surveys and the drilling of test wells on undeveloped properties. Further leasehold acquisitions and seismic operations are planned for 2008 and future periods. In addition, exploratory and developmental drilling is scheduled during 2008 and future periods on our undeveloped properties. We anticipate that these exploration activities together with others that may be entered into may impose financial requirements which may exceed our existing working capital. We may need to raise additional equity or enter into new borrowing arrangements to finance our continued participation in planned activities. Further, we have farmed-out certain of our projects. However, if additional financing is not available, we may be compelled to reduce the scope of our business activities. If we are unable to fund planned expenditures, it may be necessary to forfeit our interest in proposed wells, farm-out our interest in proposed wells, sell a portion of our interests in prospects and use the sale proceeds to fund participation for a lesser interest, reduce general and administrative expenses, or a combination of all of these factors.

**3. Recently Issued Accounting Pronouncements:**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which we adopted on January 1, 2008. SFAS 157 provides a definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements for future transactions. The adoption of this pronouncement did not impact our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS No. 141R ). SFAS No. 141R, which among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. This standard will change our accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* ( SFAS No. 160 ). SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. It also establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary and requires expanded disclosures. This statement is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. We do not expect the adoption of this statement will have a material impact on our financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133. SFAS 161 amends and expands the disclosure requirements of FASB Statement No. 133 with the intent to provide users of financial statement with an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and the related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect and entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for years and interim periods beginning after November 15, 2008. We do not expect the adoption of SFAS No. 161 to have a significant effect on our reported financial position or results of operations.

**4. EARNINGS (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 of 2,906,777 for the three months ended March 31, 2007 were excluded from the earnings per share computation because the Company incurred a net loss and were anti-dilutive. There were 2,196,230 outstanding common stock warrants as well as 170,000 outstanding common stock options on March 31, 2008 that were not included in the diluted EPS calculation because the warrants and options exercise prices were greater than the average market price of the common shares.

|  | <b>Three Months Ended March 31,</b> |               |
|--|-------------------------------------|---------------|
|  | <b>2008</b>                         | <b>2007</b>   |
| <b>Numerator:</b>                                  |                                     |               |
| Net Income (Loss) Available to Common Shareholders | \$ 344,126                          | \$ (182,614)  |
| <b>Denominator:</b>                                |                                     |               |
| Weighted Average Shares Outstanding                | 31,950,970                          | 27,526,895    |
| Outstanding Options                                | 1,192,800                           | Anti-dilutive |
| Outstanding Warrants                               | 66,678                              | Anti-dilutive |
| Average Number of Shares for Diluted Calculation   | 33,210,448                          | 27,526,895    |
| Diluted EPS  | \$ 0.01                             | \$ (0.01)     |

**5. INCOME TAXES:**

The Company files income tax returns in the U.S. federal jurisdiction and various states. There are currently no federal or state income tax examinations underway. Furthermore, the Company is no longer subject to U.S. federal income tax examinations by the Internal Revenue Service for tax years before 2005 and for state and local tax authorities for tax years before 2002. The Company does, however, have net operating losses generated in tax years 1997 and after, which remain open for examination.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. The Company does not foresee the total amounts of unrecognized tax benefits significantly increasing within the next 12 months. Furthermore, no corresponding interest and penalties have been accrued as the Company is in a net operating loss position.

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.

The effective tax rate for the three month period ended March 31, 2008 and for the year ended December 31, 2007 is 3.1 percent, and differs from statutory rates primarily due to changes in the valuation allowance.

**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, 2007. The options outstanding as of March 31, 2008 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            | 0.08  |
|                               | 1,750,000 | 1,400,000                     | 2.10            | 5.18  |
|                               | 150,000   | 30,000                        | 3.85            | 3.04  |
|                               | 10,000    | 6,000                         | 4.25            | 1.76  |
|                               | 10,000    | 4,000                         | 6.25            | 2.19  |
|                               | 2,670,000 | 2,190,000                     |                 |   |

The total intrinsic value of options outstanding was approximately \$2,875,000 and \$10,841,000 at March 31, 2008 and 2007 respectively. The intrinsic value for exercisable options was \$2,640,500 and \$9,043,120 at March 31, 2008 and 2007, respectively.

As of March 31, 2008, there are 2,190,000 options which are exercisable. The remaining 480,000 options will become exercisable over the next four years. The stock compensation expense related to the unvested awards is \$283,254.

#### 7. COMMON STOCK WARRANTS:

There were no new warrants issued during the first quarter of 2008.

#### 8. COMMITMENTS AND CONTINGENCIES:

There are no material changes to commitments and contingencies from those disclosed in the audited annual consolidated financial statements for the year ended December 31, 2007 except as disclosed in Note 8 herein, and as follows:

South Dry Hollow Prospect, Lavaca County, Texas On February 26, 2008, the Company's subsidiary, South Texas GeoPetro LLC, entered into a participation agreement wherein it acquired a 15% non-operated working interest in the South Dry Hollow Prospect, which is located in Lavaca County, Texas. On February 25, 2008, the Company paid a \$150,000 prospect fee and advanced \$1.1 million to drill the Eichhorn #1 Well. The Eichhorn #1 Well shall be drilled to a total depth sufficient to test the Rochelle Sand, the top of which is at a stratigraphic equivalent depth of approximately 16,650 feet.

#### 9. SUBSEQUENT EVENTS:

On April 25, 2008, an officer and director exercised options to purchase 750,000 shares of common stock at an exercise price of \$0.50 per share. The options were granted on April 30, 1996 and had an expiration date of April 30, 2008.



## 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

We are an oil and gas company in the business of exploring and developing oil and natural gas reserves on a worldwide basis. Since inception, we have conducted leasehold acquisition, exploration and drilling activities on our North American, Australian and Indonesian prospects. These projects currently encompass approximately 372,317 gross (158,401 net) acres, consisting of mineral leases, production sharing contracts and exploration permits that give us the right to explore for, develop and produce oil and natural gas. Most of these properties are in the exploration, appraisal or development drilling phase and have not begun to produce revenue from the sale of oil and natural gas. Excluding minor interest and dividend income, our only significant cash inflows until 2003 were the recovery of capital invested in projects through sale or other divestiture of interests in oil and gas prospects to industry partners.

Since 2003, substantially all of our revenue has been generated from natural gas sales derived from the Magness #1, the Fannin #1, and the Mitchell #1 wells in the Madisonville Field in East Texas under spot gas purchase contracts at market prices. Natural gas sales from the Madisonville Field are expected to account for substantially all of our revenues for 2008. We expect the majority of our capital expenditures in 2008 to be spent on the Madisonville Project.

**Results of Operations**

The financial information with respect to the three months ended March 31, 2008 and 2007 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 years.

|  | <b>Three Months Ended</b>            |                                      |
|--|--------------------------------------|--------------------------------------|
|  | <b>March 31, 2008</b><br>(unaudited) | <b>March 31, 2007</b><br>(unaudited) |
| <b>Consolidated Statement of Operations:</b>                 |                                      |                                      |
| <b>Revenues</b>  | \$ 2,142,598                         | \$ 1,823,342                         |
| <b>Lease operating expense</b>                               | 343,823                              | 427,277                              |
| <b>General and administrative</b>                            | 715,423                              | 759,356                              |
| <b>Net profits expense</b>                                   | 228,061                              | 184,204                              |
| <b>Depreciation and depletion expense</b>                    | 534,430                              | 576,942                              |
| <b>Earnings (loss) from operations</b>                       | 320,861                              | (124,437)                            |
| <b>Net income (loss)</b>                                     | 344,126                              | (182,614)                            |
| <b>Net income (loss) attributable to common shareholders</b> | \$ 344,126                           | \$ (182,614)                         |

**Revenue and Operating Trends in 2008**

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

In 2005 we secured a commitment from Madisonville Gas Processing, LP ( MGP ) to install and make operational additional treating facilities capable of treating 50 MMcf/d, which combined with the capacity of the current in-service treating facilities will represent a total designed treating capacity of 68 MMcf/d for the Madisonville treatment plant. In October 2007, MGP informed us that they had partially completed construction of the additional treating facilities. Subsequently in November 2007, MGP commenced phase-in of the additional treating capacity reaching a temporary peak inlet volume of 21 mmcf/d out of the total contracted 50 mmcf/d design capacity at such facilities. However, operations at the additional treating facilities were suspended by MGP in December 2007 in order to make the necessary modifications to effectively deal with the presence of diamondoids in the gas stream produced from the Rodessa Formation. A diamondoid is a rare, naturally occurring compound that can segregate out of the gas stream upon a decrease in temperature and pressure and as such, could cause operational problems for the nitrogen rejection portion of the additional treating facilities. MGP has obtained a detailed laboratory composition analysis of the diamondoids and is currently finalizing plans for modifications to the operating system. MGP indicates that removal of the diamondoids will require flowing the natural gas stream through a hydrocarbon contactor after the gas stream has had the hydrogen sulfide and carbon dioxide removed. Through this contactor process, the hydrocarbon will absorb the diamondoids from the gas stream prior to entry into the nitrogen removal tower. MGP expects to complete installation of the system modifications required in the new plant by the third quarter of 2008. In the meantime, the existing, in service portion of the plant continues to treat approximately 15 million cubic feet per day of inlet gas.



Upon completion of the phase-in, we expect to produce our wells at a higher rate as the well rates have previously been restricted due to capacity limitations in the gas treatment plant. In addition, we expect to fracture stimulate the Wilson Well in late 2008, 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, MGP will receive a treating fee of \$1.50 per thousand cubic feet ( 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 received by 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 2008 as compared to 2007 and prior periods.

#### **Industry Overview for the three months ended March 31, 2008**

The first quarter of 2008 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 31, 2008, was \$9.05 per Mcf versus \$6.81 per Mcf as of December 31, 2007. Higher natural gas prices this year and next reflect continued strong demand, high oil prices, and the need to replenish more stocks this year than last year, among other factors.

#### **Company Overview for the three months ended March 31, 2008**

Our net income after taxes for the quarter ended March 31, 2008 was \$344,126. 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, 2008 of \$11,666,663. 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, 2008 were derived from our Madisonville Project, from three producing wells, the UMC Ruby Magness #1 well (the Magness Well ), the Angela Farris Fannin #1 well (the Fannin Well ), and the Mitchell #1 well (the Mitchell Well ).

#### **Comparison of Results of Operations for the three months ended March 31, 2008 and 2007**

During the three months ended March 31, 2008, we had oil and natural gas revenues of \$2,142,598. Our net production was 450,650 Mcf of natural gas at an average price of \$4.75 per Mcf. During the three months ended March 31, 2007, we had oil and natural gas revenues of \$1,823,342. Our net production for the three months ended March 31, 2007 was 522,996 Mcf at an average price of \$3.49 per Mcf. Revenues increased in the three months ended March 31, 2008 as compared to the prior year period due to higher natural gas prices and despite 14% lower production volumes. Natural gas prices were approximately 36% higher for the three months ended March 31, 2008 versus the same period in 2007.

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During the three months ended March 31, 2008, we incurred lease operating expense of \$343,823. Our average lifting cost for the 2008 period was \$0.76 per Mcf. During the three months ended March 31, 2007, we incurred lease operating expense of \$427,277. Our average lifting cost for the 2007 period was \$0.82 per Mcf. The average lifting cost per Mcf in 2007 was higher due to workovers performed on the Magness well during that period.

During the three months ended March 31, 2008, we incurred net profits interest expense of \$228,061 associated with the Magness, the Fannin, and the Mitchell wells as compared to \$184,204 during the three months ended March 31, 2007. The 24% increase resulted from higher gas prices in the three months ended March 31, 2008 versus 2007. The net profit interest is 12.5% of the net operating profit from our Magness, Fannin, and Mitchell wells.

General and administrative ( **G&A** ) expenses for the three months ended March 31, 2008 were \$715,423 compared to \$759,356 for the three months ended March 31, 2007. This represents a \$43,933 or 6% decrease over the prior year period. The higher G&A expense incurred in 2007 was due primarily to costs associated with our initial SEC registration and American Stock Exchange listing.

Depreciation, depletion and amortization expense ( **DD&A** ) for the three months ended March 31, 2008 was \$534,430 as compared to \$576,942 in the same period of 2007, which amounts primarily represent amortization of the oil and gas properties for the three months ended March 31, 2008 and 2007, respectively. The 7% decrease was due to lower net production in the three months period of 2008.

Income from operations totaled \$320,861 for the three months ended March 31, 2008 as compared to loss from operations of \$124,437 for the three months ended March 31, 2007. The increase in the income from operations was due primarily to higher gas prices and lower expenses.

Other income for the three months ended March 31, 2008 and 2007 consisted of interest income in the amount of \$30,065 and \$28,005, respectively. Interest income increased due primarily to higher average cash and cash equivalent balances during the 2008 period as compared to the 2007 period.

During the three months ended March 31, 2008 and 2007, we incurred interest expense of \$0 and \$86,182, respectively. We had no outstanding debt during the first quarter of 2008 since all loans were paid in full in October 2007.

Net income before taxes for the three months ended March 31, 2008 was \$350,926 as compared to net loss before taxes of \$182,614 for the three months ended March 31, 2007. The increase in net income during the three months ended March 31, 2008 was primarily due to higher gas price and lower expenses.

Income tax expense for the three months ended March 31, 2008 was \$6,800 compared to \$0 in the same period of 2007. The increased income tax expense was due to alternative minimum tax incurred in the first quarter of 2008.

### Recent Developments

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On April 25, 2008, an officer and director exercised options to purchase 750,000 shares of common stock at an exercise price of \$0.50 per share. The options were granted on April 30, 1996 and had an expiration date of April 30, 2008.

On February 26, 2008, the Company's subsidiary, South Texas GeoPetro LLC, entered into a participation agreement wherein it acquired a 15% non-operated working interest in the South Dry Hollow Prospect, which is located in Lavaca County, Texas. On February 25, 2008, the Company paid a \$150,000 prospect fee and advanced \$1.1 million to drill the Eichhorn #1 Well. The Eichhorn #1 Well was drilled to a depth of approximately 16,650 feet and is currently being evaluated for production.

**Liquidity and Capital Resources**

We had a working capital surplus of \$2,058,001 at March 31, 2008 versus \$3,361,853 at December 31, 2007. Our working capital decreased during three months ended March 31, 2008 due primarily to our participation in the drilling of a well in South Texas.

We have historically financed our business activities principally through issuances of common shares, promissory notes and common share purchase warrants in private placements and an initial public offering. However, during the three months ended March 31, 2008, we had no financing activities. These financings are summarized as follows:

|  | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 31, 2008     | March 31, 2007 |
| Proceeds from sale of common shares and warrant exercises, net | \$                 | \$ 71,729      |
| Proceeds from promissory notes                                 |                    | 1,000,000      |
| Payment of loan fee  |                    | (57,000)       |
| Repayment of related party note                                |                    | (100,000)      |
| Net cash provided by financing activities                      | \$                 | \$ 914,729     |

The net proceeds of our equity financings have been primarily invested in oil and natural gas properties totaling \$2,211,876 and \$945,895 for the three months ended March 31, 2008 and 2007, respectively.

Our cash balance at March 31, 2008 was \$3,147,765 compared to a cash balance of \$4,294,565 at December 31, 2007. The change in our cash balance is summarized as follows:

|  |             |
|--|-------------|
| Cash balance at December 31, 2007            | \$4,294,565 |
| Sources of cash:                             |             |
| Cash provided by operating activities        | 1,066,777   |
| Total sources of cash including cash on hand | 5,361,342   |
| Uses of cash:                                |             |
| Cash used in investing activities:           |             |
| Oil and natural gas property expenditures    | (2,211,876) |
| Furniture, fixtures and equipment            | (1,701)     |
| Total uses of cash                           | (2,213,577) |
| Cash balance at March 31, 2008               | \$3,147,765 |

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 2008* for a description of our expected capital expenditures for 2008. 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.

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As discussed in the Outlook for 2008, we are forecasting capital expenditures of \$26.2 million during 2008. We will need to obtain adequate sources of cash to fund our anticipated capital expenditures through the end of 2008 and to follow through with plans for continued investments in oil and gas properties. Our success, in part, depends on our ability to generate additional financing and farm-out certain of our projects.

Since our inception, we have participated as a working interest owner in the acquisition of undeveloped leases, seismic options, lease options and foreign concessions and have participated in seismic surveys and the drilling of test wells on our undeveloped properties. Further leasehold acquisitions, drilling and seismic operations are planned for 2008 and future periods. In addition, exploratory and development drilling is scheduled during 2008 and future periods on our undeveloped properties. It is anticipated that these exploration activities together with others that may be entered into will impose financial requirements which will exceed our existing working capital. We may raise additional equity and/or debt capital, and we may farm-out certain of our projects to finance our continued participation in planned activities. However, if additional financing is not available, we may be compelled to reduce the scope of our business activities. If we are unable to fund planned expenditures, it may be necessary to:

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

### **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, 2007. There were no material changes to our contractual obligations since December 31, 2007.

### **Off Balance Sheet Arrangements**

From time to time, we enter into off-balance sheet arrangements and transactions that can give rise to off-balance sheet obligations. As of March 31, 2008, our off-balance sheet arrangements and transactions include operating lease agreements and gas transportation commitments. We do not believe that these arrangements are reasonably likely to materially affect our liquidity or availability of, or requirements for, capital resources.

### **Financial Instruments**

We currently have no natural gas price financial instruments or hedges in place. Similarly, we have no financial derivatives. Our natural gas marketing contracts use spot market prices. Given the uncertainty of the timing and volumes of our natural gas production this year, we do not currently plan to enter into any long term fixed-price natural gas contracts, swap or hedge positions, other gas financial instruments or financial derivatives in 2008.

### **Outlook for 2008/2009**

Depending on capital availability, we are forecasting capital spending of up to approximately \$26.2 million during the year 2008/2009, allocated as follows:

1. Madisonville Project, Madison County, Texas. Approximately \$13.5 million may be expended in the Madisonville Field area as follows: \$1.5 million toward the fracture stimulation and hook up costs of the Wilson Well and \$12.0 million toward the drilling of a deep well.
2. Central Alberta Project. Up to approximately \$2.7 million may be expended to drill an exploratory well in the Swan Hills Prospect.

3. Cook Inlet, Alaska. Up to \$5.0 million may be expended toward the drilling and completion of one exploratory well and an additional \$2.0 million to be utilized for land acquisition and geologic and geophysical costs.

4. Indonesia. Up to \$3.0 million may be expended toward the drilling, completion and testing of wells as well as the acquisition of seismic data in the Bengara II PSC as well as acquisition costs associated with new ventures.

We may, in our discretion, decide to allocate resources towards other projects in addition to or in lieu of, those listed above should other opportunities arise and as circumstances warrant. We currently do not have sufficient working capital to fund all of the capital expenditure listed above. See Liquidity and Capital Resources.

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.

GeoPetro anticipates an increase in gas price in 2008 from 2007. This would have a materially positive impact on our cash flow and revenues.



Changing prices have had a significant impact on costs of drilling and completing wells, particularly in the Madisonville Field area where we are currently the most active. The estimated cost of drilling and completing a Rodessa formation well at approximately 12,300 feet of depth has increased from \$3.0 million in 2001 to \$7.5 million in 2008 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, 2007 for the description of critical accounting policies and estimates.

### **Risks and Uncertainties**

There are a number of risks that face participants in the U.S., Canadian and international oil and natural gas industry, including a number of risks that face us in particular. Accordingly, there are risks involved in an ownership of our securities. See **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2007 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, 2008, a 10% change in the prices received for natural gas production would have had an approximate \$700,000 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 2008 and 2007.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Based on their evaluation as of the end of the first quarter ended March 31, 2008, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and in providing reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

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

## 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, 2007, referred to as our 2007 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 2007 Annual Report. These risks and uncertainties are not the only ones facing us and there may be additional matters that we are unaware of or that we currently consider immaterial.

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

#### Unregistered Sales of Securities

There were no sales of unregistered securities during the period ended March 31, 2008.

#### Use of Proceeds

On our registration statement on Form S-1 (Reg. No. 333-135485) we registered up to 16,499,991 shares of our common stock, no par value per share, including 4,301,355 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 in February 2007. The offering commenced on in February 2007 and has not terminated. On our registration statement on Form S-1 (Reg. No. 333-146557) we registered up to 2,002,599 shares of outstanding common stock and the resale of up to 780,857 shares of common stock issuable upon exercise of warrants, for resale by selling shareholders. The registration statement was declared effective by the Securities and Exchange Commission in October 2007. The offering commenced in October 2007 and has not terminated. We will not receive any proceeds from the sale of our common stock by the selling shareholders under the registration statements; however if all warrants and options to acquire our common stock being registered thereunder are exercised, we will realize cash proceeds of approximately \$13,312,974, which we expect to use for general working capital purposes and the drilling of wells in our Texas, Alaska, California and Indonesian prospects.

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If less than the \$13,312,974 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**

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| Exhibit<br>Number | Description  |
|-------------------|--|
| 3.1 (2)           | Amended and Restated Articles of Incorporation of GeoPetro Resources Company   |
| 3.2 (8)           | Second Amended and Restated Bylaws of the GeoPetro Resources Company   |
| 4.1 (2)           | Form of Warrant issued by GeoPetro Resources Company to various investors on various dates.  |
| 4.2 (3)           | Specimen Common Stock Certificate  |
| 4.3               | Form of common stock purchase warrant issued to various investors dated August 13, 2007 (filed as exhibit 4.1 to the Company's Report on Form 8-K as filed with the Securities and Exchange Commission on August 16, 2007, and incorporated herein by reference)   |
| 4.4               | Registration Rights Agreement between GeoPetro Resources Company and various investors dated August 13, 2007 (filed as Exhibit B to the Form of Unit Subscription Agreement dated August 13, 2007 filed as Exhibit 10.20 to the Company's Report on Form 8-K as filed with the Securities and Exchange Commission on August 16, 2007 and incorporated herein by reference) |
| 4.5 (6)           | Placement Agent Warrant dated August 13, 2007  |
| 10.1 (2)          | Joint Venture Agreement Bengara II, Dated January 1, 2000  |
| 10.2 (2)          | Production Sharing Contract Bengara II, Dated December 4, 1997   |
| 10.4 (2)          | Exploration Permit#408, Dated July 2, 1997   |
| 10.5 (2)          | Madisonville Field Development Agreement Dated August 1, 2005  |
| 10.6 (2)          | Alaska Cook Inlet Option dated April 20, 2005  |
| 10.7 (2)          | The 2001 Stock Incentive Plan  |
| 10.8 (2)          | The 2004 Stock Option and Appreciation Rights Plan   |
| 10.9 (2)          | 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 (2)         | David Creel Employment Agreement, Dated April 28, 1998 and amendments dated June 15, 2000, May 12, 2003 and January 1, 2005  |
| 10.11 (2)         | J. Chris Steinhauser Employment Agreement, Dated June 19, 2000 and amendments dated December 12, 2002 and January 1, 2005  |
| 10.12 (2)         | Office Lease Agreement, Dated effective March 1, 2004  |

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- 10.13 (4) Form of Subscription Agreement for GeoPetro Resources Company stock executed by various investors on various dates.
- 10.19 (5) Shares Sale & Purchase Agreement Dated September 29, 2006
- 10.20 (6) Form of Unit Subscription Agreement Dated August 13, 2007
- 10.22 (6) Promissory Note to Stuart Doshi dated February 12, 2007
- 10.23 (7) Third Amendment to J. Chris Steinhauser Employment Agreement dated December 18, 2007
- 31.1 (1) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 (1) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.1 (1) Certification of Chief Executive Officer and Chief Financial Officer of GeoPetro Resources Company pursuant to 18 U.S.C. § 1350.

- 
- (1) Filed herewith.
  - (2) Filed as the identically numbered exhibit to the Registration Statement on Form S-1, (No. 333-135485), as filed with the Securities and Exchange Commission on June 30, 2006, and incorporated herein by reference.
  - (3) Filed as the identically numbered exhibit to the Registration Statement on Form S-1, (No. 333-135485), as filed with the Securities and Exchange Commission on January 31, 2007, and incorporated herein by reference.
  - (4) Filed as Exhibit 10.14 to the Registration Statement on Form S-1 (No. 333-135485) as filed with the Securities and Exchange Commission on June 30, 2006, and incorporated herein by reference.
  - (5) Filed as the identically numbered exhibit to the Registration Statement on Form S-1 (No. 333-135485), as filed with the Securities and Exchange Commission on January 9, 2007, and incorporated herein by reference.
  - (6) Filed as the identically numbered exhibit to the Registration Statement on Form S-1 (No. 333-146557), as filed with the Securities and Exchange Commission on October 9, 2007, and incorporated herein by reference.
  - (7) Filed as Exhibit 10.1 to the Company's Report on Form 8-K, as filed with the Securities and Exchange Commission on December 21, 2007 and incorporated herein by reference.
  - (8) Filed as the identically numbered exhibit to the Registration Statement on Form S-1 (No. 333-135485), as filed with the Securities and Exchange Commission on April 25, 2008, and incorporated herein by reference.

Indicates a management or compensatory plan or arrangement

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 13, 2008.

**GEOPETRO RESOURCES COMPANY**

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

By: /s/ J. Chris Steinhauser  
J. Chris Steinhauser  
Vice President of Finance and  
Chief Financial Officer, Principal  
Accounting Officer and Director