

in derivatives and commodity instruments related to oil and natural gas. If the implementing regulations result in lower commodity prices, our revenues could be adversely affected. Any of these consequences could adversely affect our business, financial condition and results of operations.

The oil and natural gas industry is highly competitive, and our small size puts us at a disadvantage in competing for resources.

The oil and natural gas industry is highly competitive particularly in the Permian Basin of Texas where our properties and operations are concentrated. We compete with major integrated and larger independent oil and natural gas companies in seeking to acquire desirable oil and natural gas properties and leases and for the equipment and services required to develop and operate properties. Many of our competitors have financial and other resources that are substantially greater than ours, which makes acquisitions of acreage or producing properties at economic prices difficult. Significant competition also exists in attracting and retaining technical personnel, including geologists, geophysicists, engineers, landmen and other specialists, as well as financial and administrative personnel hence we may be at a competitive disadvantage to companies with larger financial resources than ours.

Failure to complete additional acquisitions could limit our potential growth.

Our future success is highly dependent on our ability to acquire and develop mineral leases and oil and gas properties with economically recoverable oil and natural gas reserves. Without continued successful acquisition, of economic development projects, our current estimated oil and natural gas reserves will decline due to continued production activities. Acquiring additional oil and natural gas properties, or businesses that own or operate such properties is an important component of our business strategy. If we identify an appropriate acquisition candidate, management may be unable to negotiate mutually acceptable terms with the seller, finance the acquisition or obtain the necessary regulatory approvals. Our limited access to financial resources compared to larger, better capitalized companies may limit our ability to make future acquisitions. If we are unable to complete suitable acquisitions, it may be more difficult to replace and increase our reserves, and an inability to replace our reserves may have a material adverse effect on our financial condition and results of operations.

Acquisitions involve a number of risks, including the risk that we will discover unanticipated liabilities or other problems associated with the acquired business or property.

In assessing potential acquisitions, we consider information available in the public domain and information provided by the seller. In the event publicly available data is limited, then, by necessity, we may rely to a large extent on information that may only be available from the seller, particularly with respect to drilling and completion costs and practices, geological, geophysical and petrophysical data, detailed production data on existing wells, and other technical and cost data not available in the public domain. Accordingly, the review and evaluation of businesses or properties to be acquired may not uncover all existing or relevant data, obligations or actual or contingent liabilities that could adversely impact any business or property to be acquired and, hence, could adversely affect us as a result of the acquisition. These issues may be material and could include, among other things, unexpected environmental liabilities, title defects, unpaid royalties, taxes or other liabilities. If we acquire properties on an “as-is” basis, we may have limited or no remedies against the seller with respect to these types of problems.

The success of any acquisition that we complete will depend on a variety of factors, including our ability to accurately assess the reserves associated with the acquired properties, assumptions related to future oil and natural gas prices and operating costs, potential environmental and other liabilities and other factors. These assessments are often inexact and subjective. As a result, we may not recover the purchase price of a property from the sale of production from the property or recognize an acceptable return from such sales or operations.

Our ability to achieve the benefits that we expect from an acquisition will also depend on our ability to efficiently integrate the acquired operations. Management may be required to dedicate significant time and effort to the integration process, which could divert its attention from other business opportunities and concerns. The challenges involved in the integration process may include retaining key employees and maintaining employee morale, addressing differences in business cultures, processes and systems and developing internal expertise regarding acquired properties.

We may incur substantial losses and be subject to substantial liability claims as a result of our oil and natural gas operations, including our drilling operations.

Oil and natural gas exploration, development and production activities are subject to numerous significant operating risks, including the possibility of:

- unanticipated, abnormally pressured formations;
- significant mechanical difficulties, such as stuck drilling and service tools and casing collapses;
- blowouts, fires and explosions;
- personal injuries and death;