

MORGAN CREEK ENERGY CORP

Form 10-K

April 12, 2012

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U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

Mark One

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

For the fiscal year ended December 31, 2011

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

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

COMMISSION FILE NO. 000-52139

MORGAN CREEK ENERGY CORP.

(Name of small business issuer in its charter)

NEVADA

(State or other jurisdiction of  
incorporation or organization)

201777817

(I.R.S. Employer  
Identification No.)

6060 NORTH CENTRAL EXPRESSWAY SUITE 560  
DALLAS, TEXAS 75206

(Address of principal executive offices)

(214) 800-2851

(Issuer's telephone number)

Securities registered pursuant to  
Section 12(b) of the Act:  
NONE

Name of each exchange on which  
registered:

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

COMMON STOCK, \$0.001

(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Indicate by check mark if the registration is a well-known seasoned issuer as defined in Rule 403 of the Securities Act.  Yes  No

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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 has (i) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, 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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of the last business of the registrant's most recently completed second fiscal quarter: June 30, 2011 \$3,985,080.

**ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS**

N/A

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 and 15(d) of the Securities Exchange Act of 1934 after the distribution of securities under a plan confirmed by a court . Yes  No

**APPLICABLE ONLY TO CORPORATE REGISTRANTS**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class Outstanding as of March 31, 2012: Common Stock, \$0.001

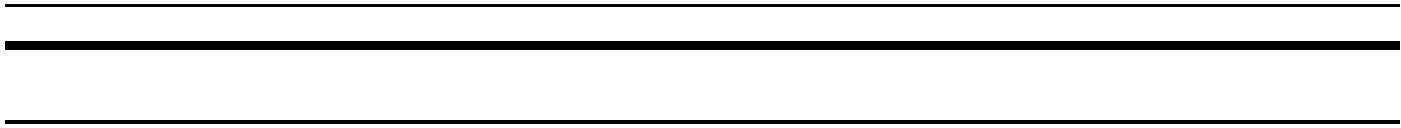
Outstanding as of March 31, 2012: 52,612,392

**DOCUMENTS INCORPORATED BY REFERENCE**

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (i) any annual report to security holders; (ii) any proxy or information statement; and (iii) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 (the "Securities Act"). The listed documents should be clearly described for identification purposes (e.g. annual reports to security holders for fiscal year ended December 24, 1990).

N/A

Transitional Small Business Disclosure Format (Check one): Yes  No



MORGAN CREEK ENERGY CORP.  
Form 10-K

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Statements made in this Form 10-K that are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 (the "Act") and Section 21E of the Securities Exchange Act of 1934. These statements often can be identified by the use of terms such as "may," "will," "expect," "believe," "anticipate," "estimate," "approximate" or "continue," or the negative thereof. We intend that such forward-looking statements be subject to the safe harbors for such statements. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Any forward-looking statements represent management's best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

#### Available Information

Morgan Creek Energy Corp. files annual, quarterly, current reports, proxy statements, and other information with the Securities and Exchange Commission (the "Commission"). You may read and copy documents referred to in this Annual Report on Form 10-K that have been filed with the Commission at the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. You can also obtain copies of our Commission filings by going to the Commission's website at <http://www.sec.gov>

## PART I

### ITEM 1. BUSINESS

#### BUSINESS DEVELOPMENT

Morgan Creek Energy Corp. was incorporated under the laws of the State of Nevada on October 19, 2004 and has been engaged in the business of exploration of oil and gas bearing properties in the United States since its inception. After the effective date of our registration statement filed with the Securities and Exchange Commission (February 14, 2006), we commenced trading on the Over-the-Counter Bulletin Board under the symbol "MCKE:OB". Our shares are also traded on the Frankfurt Stock Exchange in Germany under the symbol "M6C".

Please note that throughout this Annual Report, and unless otherwise noted, the words "we," "our," "us," the "Company," or "Morgan Creek," refers to Morgan Creek Energy Corp.

## TRANSFER AGENT

Our transfer agent is Transfer Online, Inc., 512 S.E. Salmon Street, Portland, Oregon 97214.

## CURRENT BUSINESS OPERATIONS

We are an exploration stage company that was organized to enter into the oil and gas industry. We intend to locate, explore, acquire and develop oil and gas properties in the United States and within North America. Our primary activity and focus is our leases in New Mexico (“New Mexico Prospect”) and Mississippi (“Mississippi Prospect”). The leases are unproven. To date we have leased approximately 7,576 net acres within the State of New Mexico and 21,000 net acres within the State of Mississippi. We have also acquired approximately an additional 5,763 net acres in New Mexico. We have entered into an Option Agreement to participate in approximately 8,000 net acres in Oklahoma. In addition, we acquired leases in Texas (the “Quachita Prospect”). As of the date of this Annual Report, we have acquired approximately 1,971 net acres. During the production testing and evaluation period on the first well on the property, the Boggs #1, four of the five tested zones produced significant volumes of natural gas. Analysis of the gas indicates a “sweet” condensate rich gas with BTU values of 1,000. This quality will yield a premium price over the current U.S. average natural gas price. As formation water was also produced with the natural gas in the tested zones, the Boggs #1 has been impaired as of the date of this Annual Report.

## OIL GAS PROPERTIES

The acreage and location of our oil and gas properties is summarized as follows:

	Net Acres(*)
Mississippi	21,000
New Mexico	13,339
<b>Total:</b>	<b>34,339</b>

(\*)Certain of our interests in our oil and gas properties may be less than 100%. Accordingly, we have presented the acreage of our oil and gas properties on a net acre basis.

### Quachita Prospect

As of the date of this Annual Report, we lease approximately 1,971 net acres within the Quachita Trend in the State of Texas for a three-year term in consideration of approximately \$338,000. We have a 100% working interest and a 77% net revenue interest in the Quachita Prospect leases. During 2009, the balances of the leases within the Quachita trend were allowed to lapse without renewal by us. Accordingly, during the year ended December 31, 2009, we wrote off the original cost of these leases totaling \$338,353. As allowed for under the lease, which included the Boggs #1 well, we have paid a nominal fee to maintain our rights and access to the Boggs #1 well.

**Boggs #1 Well.** We completed the drilling portion of the Boggs #1 well on July 13, 2007. Subsequently, we began production testing and evaluation of the well. Of the five tested zones, four produced significant volumes of natural gas. As formation water was also produced with the natural gas in the tested zones, the Boggs #1 is currently under evaluation.

The Boggs #1 had been privately funded with the funding investors receiving a 75% working interest and a 54% net revenue interest in exchange for providing 100% of all drilling and completion costs. Therefore, we initially retained a 25% working interest and a 23% net revenue interest in the Boggs #1 well. As of June 30, 2009, we incurred \$1,336,679 in drilling and completion costs. As of June 30, 2009, we had received a total of \$759,000 in funding from private investors. On March 24, 2008, we negotiated with the funding investors to acquire their interest in the Boggs #1 for \$759,000 (which amount is equal to the total amount of the funding investors' initial investment) and forgiveness of any additional amounts owing. Effective on March 24, 2008, we completed the acquisition and settlement of related party advances totaling \$962,980 through the issuance of 3,057,076 shares of our restricted common stock at \$0.315 per share. The difference between the estimated fair value of the common shares at issuance and the amount of the debt settled totaling \$45,857 was recorded as a finance cost.

As formation water was also produced with the natural gas in the tested zones, the Boggs #1 was partially impaired as of December 31, 2010. While there is potential to exploit lower zones or to recomple the well under an improved gas pricing environment, an impairment charge of \$891,119 was recorded against the well in 2010 and a further impairment charge of \$445,560 was recorded against the well in fiscal 2011. We follow the full cost method of accounting for our oil and gas properties whereby all costs related to the acquisition of methane, petroleum and natural gas interests are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, and direct exploration salaries and related benefits. Certain of these costs are reviewed by management periodically for impairment regarding our unproved oil and gas properties. Management's assessment of these costs and results of exploration activities, potential commodity price outlooks or expiration of all or a portion of leaseholds resulted in its decision to impair the Boggs #1 and may further impact the timing and amount of other impairments on our properties. See "Item 1A. Risk Factors".

#### New Mexico Prospect

As of the date of this Annual Report, we have leased various properties in the New Mexico Prospect totaling approximately 7,576 net acres within the State of New Mexico for a five year term expiring in 2013, in consideration for \$112,883. We have a 100% working interest and an 84.5% net revenue interest in the leases comprising the New Mexico Prospect.

**Westrock Land Corp. Option Agreement.** Effective on October 31, 2008, our Board of Directors authorized the execution of an option agreement (the "Option Agreement") with Westrock Land Corp, a private Texas corporation ("Westrock"), as the mineral leaseholder. In accordance with the terms and provisions of the Option Agreement: (i) Westrock owns certain right, title and interest in and to approximately 7,576 net acres of property within the State of New Mexico with a 100% working interest in approximately 5,763 net acres and a net revenue interest of 81.5% pertaining to 5,763 of the net acres (the "New Mexico Leases"); (ii) we desire to acquire a 100% working interest in the New Mexico Leases for a total purchase price of approximately \$388,150; and (iv) we had until April 16, 2009 to complete our due diligence (the "Option Period").



The Option Agreement was subsequently extended on March 31, 2009 and June 1, 2009 whereby the option period was extended to September 15, 2009. We exercised our option with Westrock and acquired the approximate 5,763 net acres in New Mexico.

Formcap Corporation Option Agreement. Effective on July 14, 2009, our Board of Directors, pursuant to unanimous vote at a special meeting of the Board, authorized the execution of a letter agreement dated July 9, 2009 (the "Option Agreement") with Formcap Corporation ("Formcap"), to purchase a 50% working interest (40.75% net revenue interest) of our 81.5% leasehold interest in and to certain leases located in Curry County, State of New Mexico (the "Frio Draw Prospect Interest").

In accordance with the terms and provisions of the Option Agreement: (i) Formcap agreed to pay us a \$100,000 initial payment (the "Initial Payment") within five business days from the completion of its due diligence; (ii) the balance of funds for the initial well would be advanced by FormCap to us within five business days from receipt of a mutually agreed upon approval for expenditure, which balance of such funds for the initial well were to be received by us no later than September 8, 2009; and (iii) the Initial Payment would be applied towards the total consideration to be paid by FormCap to us, which would include the cost of drilling and completing two wells at a total estimated cost of approximately \$1,300,000.

In accordance with the further terms and provisions of the Option Agreement: (i) FormCap would provide to us the dry hole and completion costs estimated at \$650,000 in advance of drilling the first well; (ii) upon drilling and completion of the first well, we would assign to FormCap a 25% working interest (20.375% net revenue interest) in the Frio Draw Prospect Interest; and (iii) upon receipt by us of the funds from Formcap in advance of drilling the second well, we would assign to FormCap the additional 25% working interest (20.375% net revenue interest). Costs associated with the drilling of all subsequent wells were to be shared on an equal basis between us and FormCap.

We granted to FormCap the time period between the date of execution of the Option Agreement and August 15, 2009 to complete its due diligence (the "Option Period"). During the period FormCap advanced a non-refundable \$100,000 deposit under the terms of the Option to secure the project in connection with which we paid a finders' fee of \$20,000. On September 24, 2009, we announced that FormCap could not meet the requirements of the Option Agreement and thus forfeited its rights to the project. We retained the \$100,000 non-refundable deposit and recorded it as a gain on expired option during 2009. Due to current market conditions, management decided to fully impair the Frio Draw Prospect in 2011 and, thus, an impairment charge of \$541,646 was recorded. See "Item 1A. Risk Factors".

## Oklahoma Prospect

Effective on June 2, 2009, our Board of Directors, pursuant to unanimous vote at a special meeting of the Board, authorized the execution of a letter agreement dated May 28, 2009, as amended (the "Option Agreement") with Bonanza Resources (Texas) Inc., the wholly owned subsidiary of Bonanza Resources Corporation ("Bonanza Resources"), to purchase a certain percentage of Bonanza Resources' eighty-five percent (85%) leasehold interest (the "Bonanza Resources Interest") in and to certain leases located in Beaver County, State of Oklahoma, known as the North Fork 3-D Prospect (the "Prospect"). In accordance with the terms and provisions of the Option Agreement: (i) we agreed to make a non-refundable payment to Bonanza Resources of \$150,000 within sixty (60) days from the date of the Option Agreement; and (ii) Bonanza Resources agreed to grant to us an option having an exercise period of one year (the "Option Period") to purchase a sixty percent (60%) partial interest (the "Partial Interest") in the Bonanza Resources Prospect. In further accordance with the terms and provisions of the Option Agreement, in the event we do not pay the \$150,000 to Bonanza Resources within sixty days from the date of the Option Agreement, the Option Agreement will terminate.

The Bonanza Resources Interest is held by Bonanza Resources pursuant to that certain letter agreement between Bonanza Resources, Ryan Petroleum LLC and Radian Energy L.C. dated February 25, 2009 (the "Original Agreement"). In accordance with the terms and provisions of the Original Agreement, Bonanza Resources acquired the Bonanza Resources Interest and subsequently represented to us that the acreage of the Bonanza Resources Interest consisted of 8,555 acres. Therefore, the Option Agreement reflected the acreage of the Bonanza Resources Interest to consist of 8,555 acres, which has been subsequently disclosed by us in numerous filings with the Securities and Exchange Commission.

Furthermore, in the event we pay the \$150,000 to Bonanza Resources within the sixty day period from the date of the Option Agreement, and in accordance with the further terms and provisions of the Option Agreement: (i) we shall assume that amount of Bonanza Resources' right, title and interest and obligations under the Original Agreement as is proportionate to the Partial Interest; and (ii) we must incur \$2,400,000 in exploration and drilling expenditures (the "Exploration Expenditures") during the Option Period. In the event that we do not exercise the Option Agreement, Bonanza Resources shall retain the \$150,000 as liquidated damages for our failure to incur the Exploration Expenditures.

During the course of our due diligence, we discovered that the size of the Bonanza Resources Interest is not the original represented 8,555 acres but approximately 5,600 acres, which we alleged was materially less than represented by Bonanza Resources and contracted for under the Option Agreement. Bonanza Resources has stated to us that the actual lesser amount of acreage forming the Bonanza Resources Interest was due to certain leases not being renewed by the operator of the Prospect, thus expiring prior to the date of the Option Agreement, without first advising Bonanza Resources either orally or in writing of the operator's intention to allow those leases to expire. Bonanza Resources further stated to us that it discovered the facts regarding the acreage on approximately November 26, 2009. We in good faith relied on the representations of Bonanza Resources when we entered into the Option Agreement and now know that such representations were not correct.

Therefore, as of November 30, 2009, we entered into an amendment of the Option Agreement with Bonanza Resources (the "Amendment"). In accordance with the terms and provisions of the Amendment, Bonanza Resources granted to us an option to acquire a 75% interest in the Bonanza Resources Interest (a 59.50% working interest) by incurring the full costs of drilling one well to completion on the Prospect, which will deem us as having earned an interest in that well and in the balance of the Prospect. In the event we incur the full cost of drilling the first well which results in a dry hole, we will then have the exclusive right and option to participate in any and all further drilling programs on the Prospect and to incur the full costs of drilling a second well to completion on the Prospect. This will deem us as having earned its option to acquire the 75% interest of the Bonanza Resources Interest in both that well and the balance of the Prospect.

Therefore, in light of the fact that the Bonanza Resources Interest is actually comprised of a number of acres materially less than originally represented by Bonanza Resources, we: (i) advised the public that we believed the accurate number of acres forming the Bonanza Resources Interest is approximately 5,600 acres and that our website has been amended accordingly; and (ii) advised the public of the Amendment.

During fiscal year ended December 31, 2009, we paid to Bonanza \$115,000. The balance of \$35,000 was due by December 31, 2009. Subsequently on January 12, 2010, the non-refundable payment was amended from \$150,000 to \$125,000. On January 15, 2010, we made the final payment of \$10,000.

On January 15, 2010, we entered into a participation agreement to finance drilling and completion costs with two partners who will pay 67% of the costs of the first well in the Prospect. We will pay 33% of the drilling and completion costs. To December 31, 2009, we had accrued the entire estimated cost of the first well of \$475,065, of which \$316,690 was paid to us during fiscal year ended December 31, 2009 by the new participants. Also during fiscal year ended December 31, 2009, we received a reduction in the well cost from the operator totaling \$189,413, which resulted in amounts payable by the new participants being reduced to \$190,530. Of the excess paid during fiscal year ended December 31, 2009 by the new participants, \$63,022 remains payable as of December 31, 2010 and has been included in accounts payable and accrued liabilities.

Our management decided to prioritize the exploration drilling program on the North Fork 3D prospect in Beaver County. We completed a multi-component interpretive 3-D survey on approximately 8,500 acres to image the Morrow A and B sands. Management believed that the 3-D interpretive survey identified approximately forty drill ready target locations. On February 1, 2010, we were informed by our operator that it had drilled the Nowlin #1-19 well to a depth of 8,836 feet. After review of the drilling logs, we have determined that oil is not producible in the targeted Morrow A and B sand formations. As of the date of this Annual Report, the well has been plugged and abandoned and we have written off our share of the dry hole costs of the well totaling \$230,524.

### Mississippi Prospect

Effective on August 26, 2010, our Board of Directors authorized the execution of an option agreement dated August 26, 2010 (the "Option Agreement") with Westrock Land Corp. ("Westrock"), to purchase approximately 21,000 net acres of mineral oil and gas leases on lands located in Lamar, Jones and Forrest counties in the State of Mississippi (the "Acquired Properties"). The Company has entered into the Option Agreement with Westrock, as the mineral leaseholder, and has received representations that Westrock owns all right, title and interest to all depths, including the Haynesville Shale Formation pursuant to the oil and gas leases with a minimum 75% net revenue interest.

In accordance with the terms and provisions of the Option Agreement: (i) we agreed to issue to Westrock an aggregate of 15,000,000 restricted shares of our common stock by November 30, 2010; (ii) Westrock grants to us a period to conduct due diligence to October 31, 2010; and (iii) at closing, Westrock shall convey to us the Acquired Properties by assignment and bill of sale and other associated documentation.

We subsequently completed due diligence on the Acquired Properties and issued 15,000,000 restricted common shares to Westrock on October 21, 2010 with an estimated fair value of \$3,000,000. Due to current market conditions, management decided to fully impair these properties in 2011 and, thus, an impairment charge of \$3,000,000 was recorded. See "Item 1A. Risk Factors."

### DRILLING ACTIVITY

As of the date of this Annual Report, we have not commenced drilling on any of our wells.

GROSS WELLS			NET WELLS		
Total	Producing	Dry	Total	Producing	Dry
-0-	-0-	-0-	-0-	-0-	-0-

### PRODUCTION INFORMATION

During fiscal year ended December 31, 2011 and previously, we had no oil and gas production.

## GROSS AND NET PRODUCTIVE GAS WELLS, DEVELOPED ACREAGE

## PRODUCTIVE WELLS AND DEVELOPED ACRES

As of the date of this Annual Report, the tables below set forth our leasehold interest in productive and shut-in gas wells, and in developed acres:

PROSPECT	GROSS (1)	NET (2)
New Mexico Prospect	-0-	-0-
Oklahoma Prospect	-0-	-0-
Total	-0-	-0-

(1) A gross well is a well in which a working interest is owned. The number of gross wells is the total number of wells in which a working interest is owned.

(2) A net well is deemed to exist when the sum of fractional ownership working interest in gross wells equals one. The number of net wells is the sum of the fractional working interests owned in gross wells expressed as whole numbers and fractions thereof.

## DEVELOPED ACREAGE TABLE(1)

PROSPECT	GROSS (2)	NET (3)
New Mexico Prospect	-0-	-0-
Oklahoma Prospect	-0-	-0-
Total	-0-	-0-

(1) Consists of acres spaced or assignable to productive wells.

(2) A gross acre is an acre in which a working interest is owned. The number of gross acres is the total number of acres in which a working interest is owned.

(3) A net acre is deemed to exist when the sum of fractional ownership working interests in gross acres equals one. The number of net acres is the sum of the fractional working interests owned in gross acres expressed as whole numbers and fractions thereof.

## PROPOSED FUTURE BUSINESS OPERATIONS

Our strategy is to complete the further acquisition of additional oil and gas opportunities that fall within the criteria of providing a geological basis for development of drilling initiatives that can provide near term revenue potential and fast drilling capital repatriation from production cash flows to create expanding reserves. We anticipate that our ongoing efforts, subject to adequate funding being available, will continue to be focused on successfully concluding negotiations for additional tracts of prime acreage in the coal bed methane and other gas producing domains, and to implement the drilling of new wells to develop reserves and to provide revenues. We plan to build a strategic base of proven reserves and production.

Our ability to continue to complete planned exploration activities and expand land acquisitions and explore drilling opportunities is dependent on adequate capital resources being available and further sources of debt and equity being obtained. The two following alternatives provide the basis for business development options:

### Development of Current Leases

The requirement to raise further funding for oil and gas exploration beyond that obtained for the next six month period continues to depend on the outcome of geological and engineering testing occurring over this interval. Based upon the completion of current property evaluations on the Quachita Prospect, the Oklahoma Prospect and the Mississippi Prospect, and if results provide the basis to continue development and geological studies indicate high probabilities of sufficient production quantities, we will attempt to raise capital to further our drilling program to establish up to six wells on leases in hand, build production infrastructure and pipeline, and raise additional capital for drilling on the New Mexico Prospect, the Oklahoma Prospect and the Mississippi Prospect and further land acquisitions. This has included the following activity:

- Site preparation for entry into current wellbores including roadway upgrade and operations site, design, review, and finalize testing procedures, book zone fracture and testing consultants, arrange equipment required.
  - Pull old well tubing, run test tools in wellbore, cut well casing, test target gas zones with acid and water.
- If gas content conducive to production, complete well by inserting downhole pump and rods, set pumping unit, wellhead, and gas line.
  - Complete pipeline.
- Create well development model and investment documents to develop wells on subject leases including funding plan.
  - Create investor communications materials, corporate identity.
    - Raise funding for well development.
  - Drill, complete, and produce from well drilling program and selective re-entry programs.
- Target further leases for exploration potential and obtain further funding to acquire new development targets.

### New Lease Acquisition and Development

If gas quality and quantities are not deemed sufficient from work to be conducted on our current leases during the first six months of operation, additional land acquisitions will be assessed and obtained subject to adequate capital resources being available and further sources of debt and equity being obtained. The following outlines anticipated activities pursuant to this business option.

- Site preparation for entry into current wellbores including roadway upgrade and operations site, design, review, and finalize testing procedures, book zone fracture and testing consultants, arrange equipment required.
  - Pull old well tubing, run test tools in wellbore, cut well casing, test target gas zones with acid and water,
- If gas content not deemed conducive to production, target further leases for exploration potential and obtain further funding to acquire new development targets.

We will require additional funding to implement our proposed future business activities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation."

We do not expect to purchase any significant equipment or increase significantly the number of our employees during the next twelve months. Our current business strategy is to obtain resources under contract where possible because management believes that this strategy, at its current level of development, provides the best services available in the circumstances, leads to lower overall costs, and provides the best flexibility for our business operations.

### COMPETITION

We operate in a highly competitive industry, competing with major oil and gas companies, independent producers and institutional and individual investors, which are actively seeking oil and gas properties throughout the world together with the equipment, labor and materials required to operate properties. Most of our competitors have financial resources, staff and facilities substantially greater than ours. The principal area of competition is encountered in the financial ability to acquire good acreage positions and drill wells to explore for oil and gas, then, if warranted, drill production wells and install production equipment. Competition for the acquisition of oil and gas wells is intense with many oil and gas properties and/or leases or concessions available in a competitive bidding process in which we may lack technological information or expertise available to other bidders. Therefore, we may not be successful in acquiring and developing profitable properties in the face of this competition. No assurance can be given that a sufficient number of suitable oil and gas wells will be available for acquisition and development.

## GOVERNMENT REGULATION

The production and sale of oil and gas are subject to various federal, state and local governmental regulations, which may be changed from time to time in response to economic or political conditions and can have a significant impact upon overall operations. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties, taxation, abandonment and restoration and environmental protection. These laws and regulations are under constant review for amendment or expansion. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas. Changes in these regulations could require us to expend significant resources to comply with new laws or regulations or changes to current requirements and could have a material adverse effect on our business operations.

### Regulation of Oil and Natural Gas Production

Our oil and natural gas exploration, production and related operations are subject to extensive rules and regulations promulgated by federal, state and local authorities and agencies. Failure to comply with such rules and regulations can result in substantial penalties. The regulatory burden on the oil and natural gas industry increases our cost of doing business and affects our profitability. Although we believe we are in substantial compliance with all applicable laws and regulations, because such rules and regulations are frequently amended or reinterpreted, we are unable to predict the future cost or impact of complying with such laws.

Many states require permits for drilling operations, drilling bonds and reports concerning operations and impose other requirements relating to the exploration and production of oil and natural gas. Such states also have statutes or regulations addressing conservation matters, including provisions for the unitization or pooling of oil and natural gas properties, the establishment of maximum rates of production from wells, and the regulation of spacing, plugging and abandonment of such wells.

### Federal Regulation of Natural Gas

The Federal Energy Regulatory Commission ("FERC") regulates interstate natural gas transportation rates and service conditions, which affect the marketing of natural gas produced by us, as well as the revenues received by us for sales of such production. Since the mid-1980's, FERC has issued a series of orders that have significantly altered the marketing and transportation of natural gas. These orders mandate a fundamental restructuring of interstate pipeline sales and transportation service, including the unbundling by interstate pipelines of the sale, transportation, storage and other components of the city-gate sales services such pipelines previously performed. One of FERC's purposes in issuing the orders was to increase competition within all phases of the natural gas industry. Certain aspects of these orders may be modified as a result of various appeals and related proceedings and it is difficult to predict the ultimate impact of the orders on us and others. Generally, the orders eliminate or substantially reduce the interstate pipelines' traditional role as wholesalers of natural gas in favor of providing only storage and transportation service, and have substantially increased competition and volatility in natural gas markets.



The price, which we may receive for the sale of oil and natural gas liquids, would be affected by the cost of transporting products to markets. FERC has implemented regulations establishing an indexing system for transportation rates for oil pipelines, which, generally, would index such rates to inflation, subject to certain conditions and limitations. We are not able to predict with certainty the effect, if any, of these regulations on any future operations. However, the regulations may increase transportation costs or reduce wellhead prices for oil and natural gas liquids.

#### Environmental Matters

Our operations and properties will be subject to extensive and changing federal, state and local laws and regulations relating to environmental protection, including the generation, storage, handling, emission, transportation and discharge of materials into the environment, and relating to safety and health. The recent trend in environmental legislation and regulation generally is toward stricter standards, and this trend will likely continue. These laws and regulations may (i) require the acquisition of a permit or other authorization before construction or drilling commences and for certain other activities; (ii) limit or prohibit construction, drilling and other activities on certain lands lying within wilderness and other protected areas; and (iii) impose substantial liabilities for pollution resulting from our operations. The permits required for several of our operations are subject to revocation, modification and renewal by issuing authorities. Governmental authorities have the power to enforce their regulations, and violations are subject to fines or injunctions, or both. In the opinion of management, we are in substantial compliance with current applicable environmental law and regulations, and we have no material commitments for capital expenditures to comply with existing environmental requirements. Nevertheless, changes in existing environmental laws and regulations or in interpretations thereof could have a significant impact on our business operations, as well as the oil and natural gas industry in general.

The Comprehensive Environmental, Response, Compensation, and Liability Act ("CERCLA") and comparable state statutes impose strict, joint and several liabilities on owners and operators of sites and on persons who disposed of or arranged for the disposal of "hazardous substances" found at such sites. It is not uncommon for the 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. The Federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes govern the disposal of "solid waste" and "hazardous waste" and authorize the imposition of substantial fines and penalties for noncompliance. Although CERCLA currently excludes petroleum from its definition of "hazardous substance," state laws affecting our operations impose clean-up liability relating to petroleum and petroleum related products. In addition, although RCRA classifies certain oil field wastes as "non-hazardous," such exploration and production wastes could be reclassified as a hazardous wastes, thereby making such wastes subject to more stringent handling and disposal requirements.

We intend to acquire leasehold interests in properties that for many years have produced oil and natural gas. Although the previous owners of these interests may have used operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties. In addition, some of our properties may be operated in the future by third parties over which we have no control. Notwithstanding our lack of control over properties operated by others, the failure of the operator to comply with applicable environmental regulations may, in certain circumstances, adversely impact our business operations.

The National Environmental Policy Act ("NEPA") is applicable to many of our planned activities and operations. NEPA is a broad procedural statute intended to ensure that federal agencies consider the environmental impact of their actions by requiring such agencies to prepare environmental impact statements ("EIS") in connection with all federal activities that significantly affect the environment. Although NEPA is a procedural statute only applicable to the federal government, a portion of our properties may be acreage located on federal land. The Bureau of Land Management's issuance of drilling permits and the Secretary of the Interior's approval of plans of operation and lease agreements all constitute federal action within the scope of NEPA. Consequently, unless the responsible agency determines that our drilling activities will not materially impact the environment, the responsible agency will be required to prepare an EIS in conjunction with the issuance of any permit or approval.

The Endangered Species Act ("ESA") seeks to ensure that activities do not jeopardize endangered or threatened animals, fish and plant species, nor destroy or modify the critical habitat of such species. Under ESA, exploration and production operation, as well as actions by federal agencies, may not significantly impair or jeopardize the species or their habitat. ESA provides for criminal penalties for willful violations of the Act. Other statutes that provide protection to animal and plant species and that may apply to our operations include, but are not necessarily limited to, the Fish and Wildlife Coordination Act, the Fishery Conservation and Management Act, the Migratory Bird Treaty Act and the National Historic Preservation Act. Although we believe that our operations are in substantial compliance with such statutes, any change in these statutes or any reclassification of a species as endangered could subject us to significant expense to modify our operations or could force us to discontinue certain operations altogether.

Management believes that we are in substantial compliance with current applicable environmental laws and regulations.

#### RESEARCH AND DEVELOPMENT ACTIVITIES

No research and development expenditures have been incurred, either on our account or sponsored by customers, to the date of our inception.

#### EMPLOYEES

We do not employ any persons on a full-time or on a part-time basis. Peter Wilson is our President/Chief Executive Officer and William Thomas is our Chief Financial Officer/Treasurer. These individuals are primarily responsible for all of our day-to-day operations. Other services are provided by outsourcing and consultant and special purpose contracts.

#### ITEM 1A. RISK FACTORS

An investment in our common stock involves a number of very significant risks. You should carefully consider the following risks and uncertainties in addition to other information in evaluating our company and its business before purchasing shares of our common stock. Our business, operating results and financial condition could be seriously harmed due to any of the following risks. The risks described below are all of the material risks that we are currently aware of that are facing our company. Additional risks not presently known to us may also impair our business operations. You could lose all or part of your investment due to any of these risks.

## RISKS RELATED TO OUR BUSINESS

### We Will Need to Raise Additional Financing to Complete Further Exploration.

We will require significant additional financing in order to continue our exploration activities and our assessment of the commercial viability of our oil and gas properties. Furthermore, if the costs of our planned exploration programs are greater than anticipated, we may have to seek additional funds through public or private share offerings or arrangements with corporate partners. There can be no assurance that we will be successful in our efforts to raise these required funds, or on terms satisfactory to us. The continued exploration of our oil and gas properties and the development of our business will depend upon our ability to establish the commercial viability of our oil and gas properties and to ultimately develop cash flow from operations and reach profitable operations. We currently are in the exploration stage and we have no revenue from operations and we are experiencing significant negative cash flow. Accordingly, the only other sources of funds presently available to us are through the sale of equity. We presently believe that debt financing will not be an alternative to us as all of our properties are in the exploration stage. Alternatively, we may finance our business by offering an interest in our oil and gas properties to be earned by another party or parties carrying out further exploration and development thereof or to obtain project or operating financing from financial institutions, neither of which is presently intended. If we are unable to obtain this additional financing, we will not be able to continue our exploration activities and our assessment of the commercial viability of our oil and gas properties. Further, if we are able to establish that development of our oil and gas properties is commercially viable, our inability to raise additional financing at this stage would result in our inability to place our oil and gas properties into production and recover our investment.

As our oil and gas properties do not contain any reserves, we may not discover commercially exploitable quantities of oil or gas on our properties that would enable us to enter into commercial production, achieve revenues and recover the money we spend on exploration.

Our properties do not contain reserves in accordance with the definitions adopted by the SEC and there is no assurance that any exploration programs that we carry out will establish reserves. All of our oil and gas properties are in the exploration stage as opposed to the development stage and have no known body of reserves. The known reserves at these projects have not yet been determined to be economic, and may never be determined to be economic. We plan to conduct further exploration activities on our oil and gas properties should market conditions improve, which future exploration may include the completion of feasibility studies necessary to evaluate whether commercial reserves exist on any of our mineral properties. There is a substantial risk that these exploration activities will not result in discoveries of commercially recoverable reserves of oil or gas. Any determination that our properties contain commercially recoverable quantities of oil or gas may not be reached until such time that final comprehensive feasibility studies have been concluded that establish that a potential reserve is likely to be economic. There is a substantial risk that any preliminary or final feasibility studies carried out by us will not result in a positive determination that our oil and gas properties can be commercially developed.

Our Exploration Activities on Our Oil and Gas Properties May Not Be Commercially Successful, Which Could Lead Us to Abandon Our Plans to Develop the Property and Our Investments in Exploration.

Our long-term success depends on our ability to establish commercially recoverable quantities of oil and natural gas on our properties that can then be developed into commercially viable operations. Oil and gas exploration is highly speculative in nature, involves many risks and is frequently non-productive. These risks include unusual or unexpected geologic formations, and the inability to obtain suitable or adequate machinery, equipment or labor. The success of oil and gas exploration is determined in part by the following factors:

- identification of potential oil and natural gas reserves based on superficial analysis;
- availability of government-granted exploration permits;
- the quality of management and geological and technical expertise; and
- the capital available for exploration.

Substantial expenditures are required to establish proven and probable reserves through drilling and analysis, to develop processes to extract oil and gas, and to develop the drilling and processing facilities and infrastructure at any chosen site. Whether an oil and gas reserve will be commercially viable depends on a number of factors, which include, without limitation, the particular attributes of the reserve; oil and natural gas prices, which fluctuate widely; and government regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of oil and gas and environmental protection. We may invest significant capital and resources in exploration activities and abandon such investments if we are unable to identify commercially exploitable reserves. The decision to abandon a project may reduce the trading price of our common stock and impair our ability to raise future financing. We cannot provide any assurance to investors that we will discover or acquire any oil or gas reserves in sufficient quantities on any of our properties to justify commercial operations. Further, we will not be able to recover the funds that we spend on exploration if we are not able to establish commercially recoverable reserves of oil or natural gas on our properties.

Based Upon Results of Management's Analysis of Certain Capitalized Costs, Exploration Activities and Potential Commodity Price Outlooks, We Have Impaired the Carrying Value of Our Oil and Gas Properties.

Management has assessed certain capitalized costs including, but not limited to, results of exploration activities and potential commodity price outlooks, resulting in an early impairment charge to the carrying value of our properties and thus may negatively impact the trading value of our securities. We account for our crude oil and natural gas exploration and development activities using the full cost method of accounting whereby all costs related to the acquisition of methane, petroleum and natural gas interests are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, and direct exploration salaries and related benefits. Certain of these costs require managerial judgment for impairment. The analysis of these factors regarding our oil and gas properties and operations can take considerable time to analyze and the determination for impairment requires both judgment and industry experience. Wells may be completed that are assumed to be productive but may actually deliver oil and gas in quantities insufficient to be economic, which may result in the abandonment of the wells at a later date. Future wells are drilled that target geological structures that are both developmental and exploratory in nature. A subsequent allocation of costs is then required to properly account for the results. The evaluation of certain of these capitalized costs requires judgment to estimate the fair value of these costs with reference to drilling activity in a given area.

We incurred impairment charges related to our properties. Impairment of unproved oil and gas properties was calculated on a field by field basis under the full cost method of accounting. We review our oil and gas properties for impairment annually or whenever events and circumstances indicate a decline in the recoverability of their carrying value. Once incurred, a write-down of oil and gas properties is not reversible at a later date. Given the complexities associated with oil and gas exploration and development, events may arise that will require us to record further impairments of the book values associated with our oil and gas properties.

**Our Business is Difficult to Evaluate Because We Have a Limited Operating History.**

In considering whether to invest in our common stock, you should consider that there is only limited historical financial and operating information available on which to base your evaluation of our performance. Our inception was October 19, 2004 and, as a result, we have a limited operating history.

**We Have a History of Operating Losses and There Can Be No Assurance We Will Be Profitable in the Future.**

We have a history of operating losses, expect to continue to incur losses, and may never be profitable, and we must be considered to be in the exploration stage. Further, we have been dependent on sales of our equity securities and debt financing to meet our cash requirements. We have incurred losses totaling approximately \$14,652,537 from October 19, 2004 (inception) to December 31, 2011 and had incurred losses of approximately \$4,278,352 during fiscal year ended December 31, 2011. Further, we do not expect positive cash flow from operations in the near term. There is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that: (i) the costs to acquire additional leases are more than we currently anticipate; (ii) drilling and completion costs for additional wells increase beyond our expectations; or (iii) we encounter greater costs associated with general and administrative expenses or offering costs.

Our development of and participation in what could evolve into an increasing number of oil and gas prospects may require substantial capital expenditures. The uncertainty and factors described throughout this section may impede our ability to economically find, develop, produce, and acquire natural gas and oil reserves. As a result, we may not be able to achieve or sustain profitability or positive cash flows from operating activities in the future.

**We Have Received a Going Concern Opinion From Our Independent Auditors' Report Accompanying Our December 31, 2011 and December 31, 2010 Financial Statements.**

The independent auditor's report accompanying our December 31, 2011 and 2010 audited financial statements contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The financial statements have been prepared "assuming that the Company will continue as a going concern." Our ability to continue as a going concern is dependent on raising additional capital to fund our operations and ultimately on generating future profitable operations. There can be no assurance that we will be able to raise sufficient additional capital or eventually have positive cash flow from operations to address all of our cash flow needs. If we are not able to find alternative sources of cash or generate positive cash flow from operations, our business and shareholders will be materially and adversely affected.

#### We Will Require Additional Funding in the Future.

Based upon our historical losses from operations, we will require additional funding in the future. If we cannot obtain capital through financings or otherwise, our ability to execute our development plans and achieve production levels will be greatly limited. Our current development plans require us to make capital expenditures for the exploration and development of our oil and natural gas properties. Historically, we have funded our operations through the issuance of equity. We may not be able to obtain additional financing on favorable terms, if at all. Our future cash flows and the availability of financing will be subject to a number of variables, including potential production and the market prices of oil and natural gas. Further, debt financing, if utilized, could lead to a diversion of cash flow to satisfy debt-servicing obligations and create restrictions on business operations. If we are unable to raise additional funds, it would have a material adverse effect upon our operations.

#### As Part of Our Growth Strategy, We Intend to Acquire Additional Oil and Gas Properties.

As part of our growth strategy, we intend to acquire additional oil and gas production properties. Current and subsequent acquisitions may pose substantial risks to our business, financial condition, and results of operations. In pursuing acquisitions, we will compete with other companies, many of which have greater financial and other resources to acquire attractive properties. Even if we are successful in acquiring additional properties, some of the properties may not produce revenues at anticipated levels or failure to conduct drilling on prospects within specified time periods may cause the forfeiture of the lease in that prospect. There can be no assurance that we will be able to successfully integrate acquired properties, which could result in substantial costs and delays or other operational, technical, or financial problems. Further, acquisitions could disrupt ongoing business operations. If any of these events occur, it would have a material adverse effect upon our operations and results from operations.

#### We Are a New Entrant Into the Oil and Gas Exploration and Development Industry Without Profitable Operating History.

Since inception, our activities have been limited to organizational efforts, obtaining working capital and acquiring and developing a very limited number of properties. As a result, there is limited information regarding property related production potential or revenue generation potential. Further, our Leases have no probable, proved or developed producing reserves. As a result, our future revenues may be limited or non-existent.

The business of oil and gas exploration and development is subject to many risks and if oil and natural gas is found in economic production quantities, the potential profitability of future possible oil and gas ventures depends upon factors beyond our control. The potential profitability of oil and natural gas properties if economic quantities are found is dependent upon many factors and risks beyond our control, including, but not limited to: (i) unanticipated ground conditions; (ii) geological problems; (iii) drilling and other processing problems; (iv) the occurrence of unusual weather or operating conditions and other force majeure events; (v) lower than expected reserve quantities; (vi) accidents; (vii) delays in the receipt of or failure to receive necessary government permits; (viii) delays in transportation; (ix) labor disputes; (x) government permit restrictions and regulation restrictions; (xi) unavailability of materials and equipment; and (xii) the failure of equipment or drilling to operate in accordance with specifications or expectations.

#### Our Drilling Operations May Not Be Successful.

We intend to test certain zones in wellbores already drilled on certain of the properties and if results are positive and capital is available, drill additional wells and begin production operations from existing and new wells. There can be no assurance that our current well re-completion activities or future drilling activities will be successful, and we cannot be sure that our overall drilling success rate or our production operations within a particular area will ever come to fruition, and if it does, will not decline over time. We may not recover all or any portion of our capital investment in the wells or the underlying leaseholds. Unsuccessful drilling activities would have a material adverse effect upon our results of operations and financial condition. The cost of drilling, completing, and operating wells is often uncertain, and a number of factors can delay or prevent drilling operations including: (i) unexpected drilling conditions; (ii) pressure or irregularities in geological formations; (iii) equipment failures or accidents; (iv) adverse weather conditions; and (v) shortages or delays in availability of drilling rigs and delivery of equipment.

#### Our Production Initiatives May Not Prove Successful.

The coal beds from which we intend to produce natural gas frequently contain water, which may hamper our ability to produce gas in commercial quantities. The amount of natural gas that can be commercially produced depends upon the coal quality, the original gas content of the coal seam, the thickness of the seam, the reservoir pressure, the rate at which gas is released from the coal, and the existence of any natural fractures through which the gas can flow to the well bore. However, coal beds frequently contain water that must be removed in order for the gas to detach from the coal and flow to the well bore. The average life of a coal bed well is only five to six years. Our ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not we can produce coal bed methane in commercial quantities.

There is no guarantee that the potential drilling locations we have or acquire in the future will ever produce natural gas or oil, which could have a material adverse effect upon our results of operations.

#### Prospects That We Decide to Drill May Not Yield Natural Gas or Oil in Commercially Viable Quantities.

We describe some of our current prospects in this Annual Report. Our prospects are in various stages of preliminary evaluation and assessment and we have not reached the point where we will decide to drill at all on the subject prospects. However, the use of seismic data, historical drilling logs, offsetting well information, and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling and testing whether natural gas or oil will be present or, if present, whether natural gas or oil will be present in sufficient quantities or quality to recover drilling or completion costs or to be economically viable. In sum, the cost of drilling, completing and operating any wells is often uncertain and new wells may not be productive.

We May Be Unable to Identify Liabilities Associated With the Properties or Obtain Protection From Sellers Against Them.

One of our growth strategies is to capitalize on opportunistic acquisitions of oil and natural gas reserves. However, our reviews of acquired properties are inherently incomplete because it generally is not feasible to review in depth every individual property involved in each acquisition. A detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential. Further, environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. We may not be able to obtain indemnification or other protections from the sellers against such potential liabilities, which would have a material adverse effect upon our results of operations.

The Potential Profitability of Oil and Gas Ventures Depends Upon Global Political and Market Related Factors Beyond Our Control.

World prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. These and other changes and events may materially affect our financial performance. The potential profitability of oil and gas properties is dependent on these and other factors beyond our control.

Production of Oil and Gas Resources if Found Are Dependent on Numerous Operational Uncertainties Specific to the Area of the Resource That Affects its Profitability.

Production area specifics affect profitability. Adverse weather conditions can hinder drilling operations and ongoing production work. A productive well may become uneconomic in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. Production and treatments on other wells in the area can have either a positive or negative effect on our production and wells. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. The content of hydrocarbons is subject to change over the life of producing wells. The marketability of oil and gas from any specific reserve which may be acquired or discovered will be affected by numerous factors beyond our control. These factors include, but are not limited to, the proximity and capacity of oil and gas pipelines, availability of room in the pipelines to accommodate additional production, processing and production equipment operating costs and equipment efficiency, market fluctuations of prices and oil and gas marketing relationships, local and state taxes, mineral owner and other royalties, land tenure, lease bonus costs and lease damage costs, allowable production, and environmental protection. These factors cannot be accurately predicted and the combination of these factors may result in us not receiving an adequate return on our invested capital.



If Production Results From Operations, We are Dependent Upon Transportation and Storage Services Provided by Third Parties.

We will be dependent on the transportation and storage services offered by various interstate and intrastate pipeline companies for the delivery and sale of our gas supplies. Both the performance of transportation and storage services by interstate pipelines and the rates charged for such services are subject to the jurisdiction of the Federal Energy Regulatory Commission or state regulatory agencies. An inability to obtain transportation and/or storage services at competitive rates could hinder our processing and marketing operations and/or affect our sales margins.

Our Results of Operations are Dependent Upon Market Prices for Oil and Gas, Which Fluctuate Widely and are Beyond Our Control.

If and when production from oil and gas properties is reached, our revenue, profitability, and cash flow depend upon the prices and demand for oil and natural gas. The markets for these commodities are very volatile and even relatively modest drops in prices can significantly affect our financial results and impede our growth. Prices received also will affect the amount of future cash flow available for capital expenditures and may affect our ability to raise additional capital. Lower prices may also affect the amount of natural gas and oil that can be economically produced from reserves either discovered or acquired. Factors that can cause price fluctuations include: (i) the level of consumer product demand; (ii) domestic and foreign governmental regulations; (iii) the price and availability of alternative fuels; (iv) technical advances affecting energy consumption; (v) proximity and capacity of oil and gas pipelines and other transportation facilities; (vi) political conditions in natural gas and oil producing regions; (vii) the domestic and foreign supply of natural gas and oil; (viii) the ability of members of Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls; (ix) the price of foreign imports; and (x) overall domestic and global economic conditions.

The availability of a ready market for our oil and gas depends upon numerous factors beyond our control, including the extent of domestic production and importation of oil and gas, the relative status of the domestic and international economies, the proximity of our properties to gas gathering systems, the capacity of those systems, the marketing of other competitive fuels, fluctuations in seasonal demand and governmental regulation of production, refining, transportation and pricing of oil, natural gas and other fuels.

The Oil and Gas Industry in Which We Operate Involves Many Industry Related Operating and Implementation Risks That Can Cause Substantial Losses Including, But not Limited to, Unproductive Wells, Natural Disasters, Facility and Equipment Problems and Environmental Hazards.

Our drilling activities are subject to many risks, including the risk that we will not discover commercially productive reservoirs. Drilling for oil and natural gas can be unprofitable, not only from dry holes, but from productive wells that do not produce sufficient revenues to return a profit. In addition, our drilling and producing operations may be curtailed, delayed or canceled as a result of other drilling and production, weather and natural disaster, equipment and service failure, environmental and regulatory, and site specific related factors, including but not limited to: (i) fires; (ii) explosions; (iii) blow-outs and surface cratering; (iv) uncontrollable flows of underground natural gas, oil, or formation water; (v) natural disasters; (vi) facility and equipment failures; (vii) title problems; (viii) shortages or delivery delays of equipment and services; (ix) abnormal pressure formations; and (x) environmental hazards such as natural gas leaks, oil spills, pipeline ruptures and discharges of toxic gases.

If any of these events occur, we could incur substantial losses as a result of: (i) injury or loss of life; (ii) severe damage to and destruction of property, natural resources or equipment; (iii) pollution and other environmental damage; (iv) clean-up responsibilities; (v) regulatory investigation and penalties; (vi) suspension of our operations; or (vii) repairs necessary to resume operations.

If we were to experience any of these problems, it could affect well bores, gathering systems and processing facilities, any one of which could adversely affect our ability to conduct operations. We may be affected by any of these events more than larger companies, since we have limited working capital.

**The Oil and Gas Industry is Highly Competitive and There is No Assurance That We Will Be Successful in Acquiring Leases.**

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 refining operations and market petroleum and other products on a regional, national or worldwide basis. These companies may be able to pay more for productive oil and natural gas properties and exploratory prospects or define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, these companies may have a greater ability to continue exploration activities during periods of low oil and natural gas market prices. Our larger competitors may be able to absorb the burden of present and future federal, state, local and other laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. In addition, because we have fewer financial and human resources than many companies in our industry, we may be at a disadvantage in bidding for exploratory prospects and producing oil and natural gas properties.

**The Marketability of Natural Resources Will be Affected by Numerous Factors Beyond Our Control, Which May Result in Us not Receiving an Adequate Return on Invested Capital to be Profitable or Viable.**

The marketability of natural resources which may be acquired or discovered by us will be affected by numerous factors beyond our control. These factors include market fluctuations in oil and gas pricing and demand, the proximity and capacity of natural resource markets and processing equipment, governmental regulations, land tenure, land use, regulation concerning the importing and exporting of oil and gas and environmental protection regulations. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in us not receiving an adequate return on invested capital to be profitable or viable.

Oil and Gas Operations are Subject to Comprehensive Regulation Which May Cause Substantial Delays or Require Capital Outlays in Excess of Those Anticipated Causing an Adverse Effect on Our Business Operations.

Oil and gas operations are subject to federal, state, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Oil and gas operations are also subject to federal, state, and local laws and regulations which seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from government bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be received. Environmental standards imposed by federal, provincial, or local authorities may be changed and any such changes may have material adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on us. Additionally, we may be subject to liability for pollution or other environmental damages which we may elect not to insure against due to prohibitive premium costs and other reasons. To date we have not been required to spend material amounts on compliance with environmental regulations. However, we may be required to do so in the future and this may affect our ability to expand or maintain our operations.

In general, our exploration and production activities are subject to certain federal, state and local laws and regulations relating to environmental quality and pollution control. Such laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuance of a given operation. Compliance with these laws and regulations has not had a material effect on our operations or financial condition to date. Specifically, we are subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. In addition, legislation has been enacted which requires well and facility sites to be abandoned and reclaimed to the satisfaction of state authorities. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Generally, environmental requirements do not appear to affect us any differently or to any greater or lesser extent than other companies in the industry.

We believe that our operations comply, in all material respects, with all applicable environmental regulations. We need insurance to protect our self against risks associated with the leases obtained. The leases allow for entry onto the properties for the purposes of oil and gas exploration. The insurance we require relates solely to developments on the properties for the purposes of oil and gas exploration.

When and if we are convinced that our current leases or those subsequently acquired are capable of hydrocarbon production and sales, and we plan to drill more than one well, we intend to maintain a \$2,000,000 per year limit policy on bodily injury and general liability with regard to risks incurred for the drilling of up to 25 wells. This will allow for our growth to contain non contract labor that would require us to carry such additional insurance for risks pertaining to oil and gas exploration conducted directly by us. Such a policy would include coverage for numerous locations for pollution, environmental damage, chemical spills and commercial general liability, fire, and personal injury. Such a policy will not be required until such time and date as we believe that we will begin a sustained drilling and operating program, and that at least one well has been drilled and is producing to justify and warrant further drilling and a sustained drilling and operating program.

Any Change to Government Regulation/Administrative Practices May Have a Negative Impact on Our Ability to Operate and Our Profitability.

The laws, regulations, policies or current administrative practices of any government body, organization or regulatory agency in the United States or any other jurisdiction, may be changed, applied or interpreted in a manner which will fundamentally alter our ability to carry on business. The actions, policies or regulations, or changes thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect on us. Any or all of these situations may have a negative impact on our ability to operate and/or our profitability.

We May be Unable to Retain Key Employees or Consultants or Recruit Additional Qualified Personnel.

Our extremely limited personnel means that we would be required to spend significant sums of money to locate and train new employees in the event any of our employees resign or terminate their employment with us for any reason. Due to our limited operating history and financial resources, we are entirely dependent on the continued service of Peter Wilson, our Chief Executive Officer, and William Thomas, our Chief Financial Officer. Further, we do not have key man life insurance on either of these individuals. We may not have the financial resources to hire a replacement if one or both of our officers were to die. The loss of service of either of these employees could therefore significantly and adversely affect our operations.

Our Officers and Directors May be Subject to Conflicts of Interest.

Our officers and directors serve only part time and are subject to conflicts of interest. Each devotes part of his working time to other business endeavors, including consulting relationships with other entities, and has responsibilities to these other entities. Such conflicts include deciding how much time to devote to our affairs, as well as what business opportunities should be presented to us. Because of these relationships, our officers and directors will be subject to conflicts of interest. Currently, we have no policy in place to address such conflicts of interest.

Nevada Law and Our Articles of Incorporation May Protect our Directors From Certain Types of Lawsuits.

Nevada law provides that our officers and directors will not be liable to us or our stockholders for monetary damages for all but certain types of conduct as officers and directors. Our Bylaws permit us broad indemnification powers to all persons against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing stockholders from recovering damages against our officers and directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require us to use our limited assets to defend our officers and directors against claims, including claims arising out of their negligence, poor judgment, or other circumstances.

## RISKS RELATED TO OUR COMMON STOCK

Sales of a Substantial Number of Shares of Our Common Stock Into the Public Market by Certain Stockholders May Result in Significant Downward Pressure on the Price of Our Common Stock and Could Affect Your Ability to Realize the Current Trading Price of Our Common Stock.

Sales of a substantial number of shares of our common stock in the public market by certain stockholders could cause a reduction in the market price of our common stock. As of the date of this Annual Report, we have 52,612,392 shares of common stock issued and outstanding. Of the total number of issued and outstanding shares of common stock, certain stockholders are able to resell up to 2,778,466 shares of our common stock pursuant to the Registration Statement declared effective on February 14, 2006. As a result of the Registration Statement, 2,778,466 shares of our common stock were issued and are available for immediate resale which could have an adverse effect on the price of our common stock.

As of the date of this Annual Report, there are 18,763,388 outstanding shares of our common stock that are restricted securities as that term is defined in Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"). Although the Securities Act and Rule 144 place certain prohibitions on the sale of restricted securities, restricted securities may be sold into the public market under certain conditions. Further, as of the date of this Annual Report, there are an aggregate of 3,400,000 Stock Options outstanding. See "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

Any significant downward pressure on the price of our common stock as the selling stockholders sell their shares of our common stock could encourage short sales by the selling stockholders or others. Any such short sales could place further downward pressure on the price of our common stock.

The Trading Price of Our Common Stock on the OTC Bulletin Board Will Fluctuate Significantly and Stockholders May Have Difficulty Reselling Their Shares.

As of the date of this Annual Report, our common stock trades on the Over-the-Counter Bulletin Board. There is a volatility associated with Bulletin Board securities in general and the value of your investment could decline due to the impact of any of the following factors upon the market price of our common stock: (i) disappointing results from our discovery or development efforts; (ii) failure to meet our revenue or profit goals or operating budget; (iii) decline in demand for our common stock; (iv) downward revisions in securities analysts' estimates or changes in general market conditions; (v) technological innovations by competitors or in competing technologies; (vi) lack of funding generated for operations; (vii) investor perception of our industry or our prospects; and (viii) general economic trends.

In addition, stock markets have experienced price and volume fluctuations and the market prices of securities have been highly volatile. These fluctuations are often unrelated to operating performance and may adversely affect the market price of our common stock. As a result, investors may be unable to sell their shares at a fair price and you may lose all or part of your investment.

**Additional Issuance of Equity Securities May Result in Dilution to Our Existing Stockholders.**

Our Articles of Incorporation, as amended, authorize the issuance of 66,666,666 shares of common stock, which authorized capital was reduced simultaneously in accordance with the Reverse Stock Split. Common stock is our only authorized class of stock. The board of directors has the authority to issue additional shares of our capital stock to provide additional financing in the future and the issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. If we do issue any such additional shares, such issuance also will cause a reduction in the proportionate ownership and voting power of all other stockholders. As a result of such dilution, your proportionate ownership interest and voting power will be decreased accordingly. Further, any such issuance could result in a change of control.

**Our Common Stock is Classified as a "Penny Stock" Under SEC Rules Which Limits the Market for Our Common Stock.**

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). Penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the SEC, which specifies information about penny stocks and the nature and significance of risks of the penny stock market. A broker-dealer must also provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer, and sales person in the transaction, and monthly account statements indicating the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for stock that becomes subject to those penny stock rules. If a trading market for our common stock develops, our common stock will probably become subject to the penny stock rules, and shareholders may have difficulty in selling their shares.

**A Majority of Our Directors and Officers are Outside the United States With the Result That it May Be Difficult for Investors to Enforce Within the United States Any Judgments Obtained Against Us or Any of Our Directors or Officers.**

A majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process on our directors or officers, or enforce within the United States or Canada any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be effectively prevented from pursuing remedies under U.S. federal securities laws against them. In addition, investors may not be able to commence an action in a Canadian court predicated upon the civil liability provisions of the securities laws of the United States.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

As of the date of this Annual Report, there are no unresolved comments pending from the Securities and Exchange Commission.

#### ITEM 2. PROPERTIES

We lease our principal office space located at 6060 North Central Expressway, Suite 560, Dallas, Texas 75206. The office costs us approximately \$180 monthly. The office and services related thereto are on a one year lease basis with the office lease renewed for another one year period due on September 5, 2012 .

#### ITEM 3. LEGAL PROCEEDINGS

Management is not aware of any legal proceedings other than disclosed below contemplated by any governmental authority or any other party involving us or our properties. As of the date of this Annual Report, no director, officer or affiliate is (i) a party adverse to us in any legal proceeding, or (ii) has an adverse interest to us in any legal proceedings. Other than discussed below, management is not aware of any other legal proceedings pending or that have been threatened against us or our properties.

#### ITEM 4. REMOVED AND RESERVED

## PART II

## ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## MARKET FOR COMMON EQUITY

Shares of our common stock commenced trading on the OTC Bulletin Board under the symbol “MCKE:OB” on approximately May 24, 2006. The market for our common stock is limited, and can be volatile. The following table sets forth the high and low bid prices relating to our common stock on a quarterly basis for the periods indicated as quoted by the NASDAQ stock market. These quotations reflect inter-dealer prices without retail mark-up, mark-down, or commissions, and may not reflect actual transactions.

Quarter Ended	High Bid	Low Bid
December 31, 2011	\$ 0.13	\$ 0.01
September 30, 2011	\$ 0.16	\$ 0.09
June 30, 2011	\$ 0.16	\$ 0.12
March 31, 2011	\$ 0.20	\$ 0.12
December 31, 2010	\$ 0.25	\$ 0.12
September 30, 2010	\$ 0.30	\$ 0.15
June 30, 2010	\$ 0.30	\$ 0.20
March 31, 2010	\$ 0.58	\$ 0.24

As of March 1, 2012, we had 38 shareholders of record, which does not include shareholders whose shares are held in street or nominee names.

## DIVIDEND POLICY

No dividends have ever been declared by the Board of Directors on our common stock. Our losses do not currently indicate the ability to pay any cash dividends, and we do not indicate the intention of paying cash dividends on our common stock in the foreseeable future.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER COMPENSATION PLANS

We have one equity compensation plan, the Morgan Creek Energy Corp. 2006 Stock Option Plan (the “2006 Plan”). The table set forth below presents information relating to our equity compensation plans as of the date of this Annual Report:



Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding column (a))
Equity Compensation Plans Approved by Security Holders (2006 Stock Option Plan)	3,400,000	\$ 0.27	3,400,000
Equity Compensation Plans Not Approved by Security Holders			
Warrants	-0-	-0-	-0-
<b>Total</b>	<b>3,400,000</b>		

#### 2006 Stock Option Plan

On April 3, 2006, our Board of Directors authorized and approved the adoption of the 2006 Plan effective April 3, 2006, under which an aggregate of 5,000,000 of our shares may be issued. On April 22, 2008, we effected the reverse stock split, which decreased the number of shares issuable under the Stock Option Plan from 5,000,000 shares to 1,666,666 shares. On April 28, 2008, our Board of Directors approved an amendment to the Stock Option Plan to increase the number of shares issuable under the Stock Option Plan to an aggregate of 5,000,000 shares. On August 3, 2009, we effected the Forward Stock Split, which increased the number of shares issuable under the Stock Option Plan from 5,000,000 shares to 10,000,000 shares.

The purpose of the 2006 Plan is to enhance our long-term stockholder value by offering opportunities to our directors, officers, employees and eligible consultants to acquire and maintain stock ownership in order to give these persons the opportunity to participate in our growth and success, and to encourage them to remain in our service.

The 2006 Plan is to be administered by our Board of Directors or a committee appointed by and consisting of one or more members of the Board of Directors, which shall determine (i) the persons to be granted Stock Options under the 2006 Plan; (ii) the number of shares subject to each option, the exercise price of each Stock Option; and (iii) whether the Stock Option shall be exercisable at any time during the option period up to ten (10) years or whether the Stock Option shall be exercisable in installments or by vesting only. The 2006 Plan provides authorization to the Board of Directors to grant Stock Options to purchase a total number of shares of Common Stock of the Company, not to exceed 5,000,000 shares as at the date of adoption by the Board of Directors of the 2006 Plan (as increased to 10,000,000 shares in accordance with the Forward Stock Split). At the time a Stock Option is granted under the 2006 Plan, the Board of Directors shall fix and determine the exercise price at which shares of our common stock may be acquired.

In the event an optionee ceases to be employed by or to provide services to us for reasons other than cause, retirement, disability or death, any Stock Option that is vested and held by such optionee generally may be exercisable within up to ninety (90) calendar days after the effective date that his position ceases, and after such 90-day period any unexercised Stock Option shall expire. In the event an optionee ceases to be employed by or to provide services to us for reasons of retirement, disability or death, any Stock Option that is vested and held by such optionee generally may be exercisable within up to one-year after the effective date that his position ceases, and after such one-year period any unexercised Stock Option shall expire.

No Stock Options granted under the Stock Option Plan will be transferable by the optionee, and each Stock Option will be exercisable during the lifetime of the optionee subject to the option period up to ten (10) years or limitations described above. Any Stock Option held by an optionee at the time of his death may be exercised by his estate within one (1) year of his death or such longer period as the Board of Directors may determine.

The exercise price of a Stock Option granted pursuant to the 2006 Plan shall be paid in full to us by delivery of consideration equal to the product of the Stock Option in accordance with the requirements of the Nevada Revised Statutes. Any Stock Option settlement, including payment deferrals or payments deemed made by way of settlement of pre-existing indebtedness may be subject to such conditions, restrictions and contingencies as may be determined.

#### Grant of Stock Options During Fiscal Years Ended December 31, 2008 and December 31, 2009

We had adopted the Stock Option Plan pursuant to which there was an aggregate of 5,000,000 shares available for issuance under the Stock Option Plan, reduced to 3,333,334 shares in accordance with a reverse stock split effective April 22, 2008, and subsequently increased to 5,000,000 shares by Board of Director approval and resolution on April 28, 2008. On December 12, 2006 our Board of Directors authorized the grant of an aggregate 1,233,336 Stock Options under the Stock Option Plan to certain officers, directors and consultants, at an exercise price of \$1.65 per share expiring on December 12, 2016, taking into effect the reverse stock split (collectively, the "2006 Stock Options"). On April 30, 2008, our Board of Directors authorized the grant of an aggregate 2,500,000 Stock Options under the Stock Option Plan to certain officers, directors and consultants, at an exercise price of \$0.50 per share expiring on April 30, 2018 (collectively, the "2008 Stock Options").

On July 14, 2009, our Board of Directors approved the cancellation of certain of the 2006 Stock Options and the 2008 Stock Options, which aggregated 3,566,670 Stock Options thus leaving a balance of 166,666 Stock Options. Effective July 14, 2009, our Board of Directors then approved the re-issuance of 3,000,000 Stock Options (the "2009 Stock Options") to certain of our officers, directors and consultants at an exercise price of \$0.25 for a period of ten years.

On September 1, 2009, our Board of Directors approved the further grant of 200,000 stock options to one of our directors exercisable at \$0.39 for a period of ten years;

On December 8, 2009, our Board of Directors approved the further grant of 200,000 Stock Options to one of our directors exercisable at \$0.58 per share for a period of ten years.

During fiscal year ended December 31, 2011, an aggregate 166,666 Stock Options expired. Thus, as of the date of this Annual Report, an aggregate 3,400,000 Stock Options are outstanding.

### Incentive Stock Options

The 2006 Plan further provides that, subject to the provisions of the Stock Option Plan and prior shareholder approval, the Board of Directors may grant to any key individuals who are our employees eligible to receive options one or more incentive stock options to purchase the number of shares of common stock allotted by the Board of Directors (the "Incentive Stock Options"). The option price per share of common stock deliverable upon the exercise of an Incentive Stock Option shall be at least 100% of the fair market value of the common shares of the Company, and in the case of an Incentive Stock Option granted to an optionee who owns more than 10% of the total combined voting power of all classes of our stock, shall not be less than 100% of the fair market value of our common shares. The option term of each Incentive Stock Option shall be determined by the Board of Directors, which shall not commence sooner than from the date of grant and shall terminate no later than ten (10) years from the date of grant of the Incentive Stock Option, subject to possible early termination as described above.

### Common Stock Purchase Warrants

During fiscal year ended December 31, 2009, we issued 3,600,000 warrants and an aggregate of 2,448,000 warrants expired. The 3,600,000 warrants to purchase shares of common stock and the shares of common stock underlying the warrants were issued in a private placement by us during fiscal year 2009 at an exercise price of \$0.25 per share exercisable for a period of twelve months from the date of share issuance, which expiration date is July 20, 2010. This left a balance of 3,600,000 warrants as of December 31, 2009.

During fiscal year ended December 31, 2010, we issued a further 1,790,000 Warrants and an aggregate 3,600,000 warrants expired. The 1,790,000 warrants to purchase shares of common stock underlying the warrants were issued in a private placement by us during fiscal year 2010 at an exercise price of \$0.50 per share exercisable for a period of twelve months from the date of share issuance which expiration date is June 11, 2011. This left a balance of 1,790,000 warrants as of December 31, 2010.

During fiscal year ended December 31, 2011, an aggregate 1,790,000 warrants expired. Thus, as of the date of this Annual Report, there are no warrants issued and outstanding (the "Warrants").

### RECENT SALES OF UNREGISTERED SECURITIES

As of the date of this Annual Report and during fiscal year ended December 31, 2011, we did not issue any shares of stock.

### SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS - SPECIAL MEETING OF SHAREHOLDERS

There were no matters submitted to a vote of the security holders during the year ended December 31, 2011.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial information is qualified by reference to, and should be read in conjunction with our financial statements and the notes thereto, and “Management’s Discussion and Analysis of Financial Condition and Results of Operation” contained elsewhere herein. The selected income statement data for fiscal years ended December 31, 2011 and 2010 and the selected balance sheet data as of December 31, 2011 and 2010 are derived from our audited financial statements which are included elsewhere herein.

	Fiscal Years Ended December 31, 2011 and 2010		For the Period from inception (October 19, 2004) to December 31, 2011
<b>STATEMENT OF OPERATIONS DATA</b>			
General and Administrative Expenses			
Investor relations expenses	\$-	\$15,000	\$921,268
Consulting expenses	12,000	6,965	880,537
Management fees – related party	106,080	108,680	1,296,443
Management fees – stock based compensation	-	-	2,430,595
Impairment of oil and gas properties	3,987,206	1,109,993	6,708,952
Office and general	84,990	139,134	885,280
Professional fees	74,333	145,651	1,066,573
Net Operating Loss	\$(4,264,609)	\$(1,525,423)	\$(14,189,648)
Other Income (Expenses)			
Gain on expired option	-	-	100,000
Financing costs	-	-	(424,660 )
Interest expense	(13,743 )	(3,459 )	(138,229 )
Total Other Income (Expenses)	(13,743 )	(3,459 )	(462,889 )
Net Loss	\$(4,278,352)	\$(1,528,882)	\$(14,652,357)
<b>BALANCE SHEET DATA</b>			
Total Assets	\$5,672	\$4,024,917	
Total Liabilities	794,021	534,914	
Stockholders’ Equity (deficit)	\$(788,349 )	\$3,490,003	

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The summarized financial data set forth in the table above is derived from and should be read in conjunction with our audited financial statements for the period from inception (October 19, 2004) to fiscal year ended December 31, 2011, including the notes to those financial statements which are included in this Annual Report. The following discussion should be read in conjunction with our audited financial statements and the related notes that appear elsewhere in this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed below and elsewhere in this Annual Report, particularly in the section entitled "Risk Factors". Our audited financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles.

We are an exploration stage company and have not generated any revenue to date. The above table sets forth selected financial information for the periods indicated. We have incurred recurring losses to date. Our financial statements have been prepared assuming that we will continue as a going concern and, accordingly, do not include adjustments relating to the recoverability and realization of assets and classification of liabilities that might be necessary should we be unable to continue in operation.

We expect we will require additional capital to meet our long term operating requirements. We expect to raise additional capital through, among other things, the sale of equity or debt securities.

### RESULTS OF OPERATION

Fiscal Year Ended December 31, 2011 Compared to Fiscal Year Ended December 31, 2010.

Our net loss for fiscal year ended December 31, 2011 was (\$4,278,352) compared to a net loss of (\$1,528,882) during fiscal year ended December 31, 2010 (an increase of \$2,749,470). During fiscal years ended December 31, 2011 and 2010, we did not generate any revenue.

During fiscal year ended December 31, 2011, we incurred general and administrative expenses of approximately \$4,264,609 compared to \$1,525,423 incurred during fiscal year ended December 31, 2010 (an increase of \$2,739,186). These general and administrative expenses incurred during fiscal year ended December 31, 2011 consisted of: (i) investor relations of \$0- (2010: \$15,000); (ii) consulting fees of \$12,000 (2010: \$6,965); (iii) management fees – related party of \$106,080 (2010: \$108,680); (iv) impairment of oil and gas properties \$3,987,206 (2010: \$1,109,993); (v) office and general of \$84,990 (2010: \$139,134); and (vi) professional fees of \$74,333 (2010: \$145,651).

General and administrative expenses incurred during fiscal year ended December 31, 2011 compared to fiscal year ended December 31, 2010 increased primarily due to the recording of impairment charge against oil and gas properties of \$3,987,206. General and administrative expenses generally include corporate overhead, financial and administrative contracted services, marketing, and consulting costs.

Of the \$4,264,609 incurred as general and administrative expenses during fiscal year ended December 31, 2011, we incurred management fees of \$106,080 payable to our officers and directors.

During fiscal year ended December 31, 2011, we recorded total other expenses consisting of interest expense of \$13,743 compared to interest expense of \$3,459 recorded during fiscal year ended December 31, 2010.

Thus, our net loss during fiscal year ended December 31, 2011 was (\$4,278,352) or (\$0.08) per share compared to a net loss of (\$1,528,882) or (\$0.04) per share during fiscal year ended December 31, 2010. The weighted average number of shares outstanding was 52,612,392 for fiscal year ended December 31, 2011 compared to 41,262,447 for fiscal year ended December 31, 2010.

## LIQUIDITY AND CAPITAL RESOURCES

### Fiscal Year Ended December 31, 2011

As at fiscal year ended December 31, 2011, our current assets were \$5,672 and our current liabilities were \$794,021, which resulted in a working capital deficit of \$788,349. As at fiscal year ended December 31, 2011, current assets were comprised of: (i) \$4,119 in cash; and (ii) \$1,553 in prepaid expense. As at fiscal year ended December 31, 2011, current liabilities were comprised of: (i) \$346,384 in accounts payable and accrued liabilities; (ii) \$272,637 in amounts due to related parties; and (iii) \$175,000 in loan payable.

As at December 31, 2011, our total assets were \$5,672 comprised of current assets. The decrease in total assets during fiscal year ended December 31, 2011 from fiscal year ended December 31, 2010 was primarily due to impairment charge to our unproved oil and gas properties thus resulting in a \$0 valuation compared to a valuation of \$3,987,206 of unproved oil and gas properties for fiscal year ended December 31, 2010.

As at December 31, 2011, our total liabilities were \$794,021 comprised entirely of current liabilities. The increase in liabilities during fiscal year ended December 31, 2011 from fiscal year ended December 31, 2010 was primarily due to the recording of the loan payable of \$175,000.

Stockholders' Equity/Deficit decreased from equity of \$3,490,003 for fiscal year ended December 31, 2010 to Stockholders' deficit of (\$788,349) for fiscal year ended December 31, 2011.

### Cash Flows from Operating Activities

We have not generated positive cash flows from operating activities. For fiscal year ended December 31, 2011, net cash flows used in operating activities was (\$92,050), consisting primarily of a net loss of (\$4,278,352). Net cash flows used in operating activities was adjusted by \$3,987,206 in impairment of oil and gas properties. Net cash flows used in operating activities was further changed by an increase of \$8,522 in accrued interest, \$35,822 in prepaid expenses, decrease of \$102,885 in accounts payable and accrued liabilities and increase of \$257,637 due to related parties. For fiscal year ended December 31, 2010, net cash flows used in operating activities was (\$835,967), consisting primarily of a net loss of (\$1,528,882). Net cash flows used in operating activities was adjusted by \$1,109,993 in impairment of oil and gas properties. Net cash flows used in operating activities was further changed by a decrease of (\$39,707) in accrued interest and (\$394,236) in accounts payable and accrued liabilities and decrease of \$16,865 in prepaid expenses and deposits.

### Cash Flows from Investing Activities

For fiscal year ended December 31, 2011, net cash flows from investing activities was \$0. For fiscal year ended December 31, 2010, net cash flows from investing activities was \$415,027 consisting of \$161,475 in oil and gas property expenditures and deposits and \$253,552 in proceeds from sale of partial equity interest in oil and gas property.

### Cash Flows from Financing Activities

We have financed our operations primarily from either advancements or the issuance of equity and debt instruments. For fiscal year ended December 31, 2011, net cash flows provided from financing activities was \$95,833 compared to \$228,167 for fiscal year ended December 31, 2010. Cash flows from financing activities for fiscal year ended December 31, 2011 consisted of \$175,000 in loans payable and \$80,000 in advances from related parties, which was offset by (\$159,167) in payments to related parties. Cash flows from financing activities for fiscal year ended December 31, 2010 consisted of \$228,167 consisting of \$290,000 in proceeds on sale and subscriptions of common stock and \$100,000 in advances from related parties, which was offset by (\$161,833) in payments to related parties.

We expect that working capital requirements will continue to be funded through a combination of our existing funds and further issuances of securities. Our working capital requirements are expected to increase in line with the growth of our business.

### PLAN OF OPERATION AND FUNDING

Existing working capital, further advances and debt instruments, and anticipated cash flow are expected to be adequate to fund our operations over the next six months. We have no lines of credit or other bank financing arrangements. Generally, we have financed operations to date through the proceeds of the private placement of equity and debt instruments. In connection with our business plan, management anticipates additional increases in operating expenses and capital expenditures relating to: (i) oil and gas operating properties; (ii) possible drilling initiatives on current properties and future properties; and (iii) future property acquisitions. We intend to finance these expenses with further issuances of securities, and debt issuances. Thereafter, we expect we will need to raise additional capital and generate revenues to meet long-term operating requirements. Additional issuances of equity or convertible debt securities will result in dilution to our current shareholders. Further, such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of prospective new business endeavors or opportunities, which could significantly and materially restrict our business operations.

## MATERIAL COMMITMENTS

As of December 31, 2007, \$1,365,500 was owed to a shareholder for advances made to the Company. During fiscal year ended December 31, 2008, we repaid \$500,000 to this shareholder. Further, the shareholder assigned the amount of \$1,940,500 to various assignees and settled the \$1,515,214 pursuant to the issuance of 5,050,712 shares of our restricted common stock at \$0.375 per share. During 2009, this shareholder made further advances of \$170,000 and was repaid \$124,000. On July 20, 2009 the Company issued 1,600,000 units at \$0.125 per unit on settlement of shareholder advances of \$200,000. Each unit consists of one common share and one non-transferable share purchase warrant exercisable at \$0.25 per share for a period of 12 months from the date of issuance. During 2010, this shareholder was repaid a total of \$156,000 for prior advances and \$49,000 of accrued interest. During 2010, another shareholder made advances of \$94,167 which were due and owing as of December 31, 2010, which bears interest at 8% per annum and has no specific repayment terms. During 2011, this shareholder made further advances of \$80,000 which bears interest at 8% per annum and has no specific repayment terms. The balance owing of \$159,167 and \$5,220 in principal and interest respectively was repaid on May 16, 2011. As of December 31, 2011, total accrued interest was \$302 leaving a total of \$15,302 owing to this shareholder.

During fiscal year ended December 31, 2011, we received loan proceeds of \$175,000 from an unrelated third party. The loan was evidenced in a promissory note dated May 15, 2011 and maturing November 15, 2011. The promissory note bears interest at the rate of 10% per annum of which a total of \$10,979 has accrued as at December 31, 2011. This note is due on demand.

## PURCHASE OF SIGNIFICANT EQUIPMENT

We do not intend to purchase any significant equipment during the next twelve months.

## OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this Annual Report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

## GOING CONCERN

The independent auditors' report accompanying our December 31, 2011 and December 31, 2010 financial statements contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The financial statements have been prepared "assuming that we will continue as a going concern," which contemplates that we will realize our assets and satisfy our liabilities and commitments in the ordinary course of business.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA



MORGAN CREEK ENERGY CORP.

(An Exploration Stage Company)

FINANCIAL STATEMENTS

DECEMBER 31, 2011 and 2010

(AUDITED)

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Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders  
Morgan Creek Energy Corp.

We have audited the accompanying balance sheets of Morgan Creek Energy Corp. (An Exploration Stage Company) as of December 31, 2011 and 2010, and the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended and from inception (October 19, 2004) to December 31, 2011. Morgan Creek Energy Corp.'s management is responsible for these financial statements. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morgan Creek Energy Corp. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended and from inception (October 19, 2004) to December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

De Joya Griffith & Company, LLC

/s/ De Joya Griffith & Company, LLC  
Henderson, NV  
April 5, 2012

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2580 Anthem Village Drive, Henderson, NV 89052  
Telephone (702) 563-1600 Facsimile (702) 920-8049

## MORGAN CREEK ENERGY CORP.

(An Exploration Stage Company)

## BALANCE SHEETS

	December 31, 2011 (Audited)	December 31, 2010 (Audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 4,119	\$ 336
Prepaid expense	1,553	37,375
<b>TOTAL CURRENT ASSETS</b>	<b>5,672</b>	<b>37,711</b>
OIL AND GAS PROPERTIES, unproven (Note 3)	-	3,987,206
<b>TOTAL ASSETS</b>	<b>\$ 5,672</b>	<b>\$ 4,024,917</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 346,384	\$ 437,987
Due to related parties (Note 6)	272,637	96,927
Loan payable ( Note 7)	175,000	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>794,021</b>	<b>534,914</b>
<b>GOING CONCERN (Note 1)</b>		
<b>STOCKHOLDERS' EQUITY (DEFICIT) (Note 4)</b>		
Common stock, 66,666,666 shares authorized with \$0.001 par value		
Issued and outstanding		
52,612,392 common shares (December 31, 2010		
-52,612,392)	52,612	52,612
Additional paid-in-capital	13,811,576	13,811,576
Deficit accumulated during exploration stage	(14,652,537)	(10,374,185)
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>(788,349 )</b>	<b>3,490,003</b>
<b>TOTAL LIABILITIES &amp; STOCK HOLDERS' EQUITY</b>	<b>\$ 5,672</b>	<b>\$ 4,024,917</b>

The accompanying notes are an integral part of these financial statements.



MORGAN CREEK ENERGY CORP.  
(An Exploration Stage Company)

STATEMENTS OF OPERATIONS

	Year ended December 31, 2011 (Audited)	Year ended December 31, 2010 (Audited)	In (Oc 2 De 3 (A
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Investor relations	\$-	\$15,000	\$92
Consulting fees	12,000	6,965	88
Management fees – related party	106,080	108,680	1,2
Management fees - stock based compensation	-	-	2,4
Impairment of oil and gas properties (Note 3)	3,987,206	1,109,993	6,7
Office and general	84,990	139,134	88
Professional fees	74,333	145,651	1,0
<b>NET OPERATING LOSS</b>	<b>(4,264,609 )</b>	<b>(1,525,423 )</b>	<b>(14</b>
<b>OTHER INCOME (EXPENSES)</b>			
Gain on expired oil and gas lease option	-	-	10
Financing costs	-	-	(42
Interest expense	(13,743 )	(3,459 )	(13
<b>TOTAL OTHER EXPENSES</b>	<b>(13,743 )</b>	<b>(3,459 )</b>	<b>(40</b>
<b>NET LOSS FOR THE YEAR</b>	<b>\$(4,278,352 )</b>	<b>\$(1,528,882 )</b>	<b>\$(14</b>
<b>BASIC LOSS PER COMMON SHARE</b>	<b>\$(0.08)</b>	<b>\$(0.04)</b>	
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-BASIC</b>	<b>52,612,392</b>	<b>41,262,447</b>	

The accompanying notes are an integral part of these financial statements.

MORGAN CREEK ENERGY CORP.  
(An Exploration Stage Company)

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM INCEPTION (OCTOBER 19, 2004) TO DECEMBER 31, 2011  
(Audited)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid in Capital	Private Placement Subscriptions	Deficit accumulated during exploration stage	Total Stockholders' Equity
Balance, October 19, 2004	-	\$ -	\$ -	\$ -	\$ -	\$ -
Common stock issued for oil and gas property at \$0.0375 per share – November 19, 2004	16,000,000	16,000	584,000	-	-	600,000
Capital distribution to founding share holder on acquisition of oil and gas property (Note 3)	-	-	(600,000 )	-	-	(600,000 )
Common stock issued for cash at \$0.0375 per share – November 26, 2004 and December 15, 2004	9,166,666	9,166	334,584	-	-	343,750
Common stock issued for cash at \$0.1875 per share – December 15, 2004	1,760,534	1,791	328,339	-	-	330,100
Net loss for the period	-	-	-	-	(23,729 )	(23,729 )
Balance, December 31, 2004	26,927,200	26,927	646,923	-	(23,729 )	650,121
Common stock issued for cash at \$0.1875 per share – March 9, 2005	186,666	187	34,813	-	-	35,000
Net loss for the year	-	-	-	-	(204,026 )	(204,026 )
Balance, December 31, 2005	27,113,866	27,114	681,736	-	(227,755 )	481,095
Common stock issued for cash at \$2.25 per share - October 16, 2006	629,404	629	1,415,529	-	-	1,416,158
Common stock issued for oil and gas property at \$2.625 per share – October 17, 2006 (Note 3)	133,334	133	349,867	-	-	350,000
Stock-based compensation	-	-	1,527,170	-	-	1,527,170

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Restricted common shares cancelled						
– December 19, 2006	(8,000,000 )	(8,000 )	8,000	-	-	-
Net loss for the year	-	-	-	-	(3,918,002)	(3,918,002)
Balance, December 31, 2006	19,876,604	19,876	3,982,302	-	(4,145,757)	(143,579 )
Net loss for the year	-	-	-	-	(817,021 )	(817,021 )
Balance, December 31, 2007	19,876,604	19,876	3,982,302	-	(4,962,778)	(960,600 )
Shares for debt at \$0.375 per share – February 13, 2008	5,050,712	5,051	1,888,966	-	-	1,894,017
Shares for debt at \$0.315 per share – March 24, 2008	3,057,076	3,057	959,923	-	-	962,980
Common stock issued for cash at \$0.375 per share – July 3, 2008 and October 23, 2008, net of finder’s fees	2,448,000	2,448	894,639	-	-	897,087
Stock based compensation – options	-	-	436,955	-	-	436,955
Net loss for the year	-	-	-	-	(2,021,930)	(2,021,930)
Balance, December 31, 2008	30,432,392	\$ 30,432	\$ 8,162,785	\$ -	\$ (6,984,708)	\$ 1,208,509

The accompanying notes are an integral part of these financial statements.

MORGAN CREEK ENERGY CORP.  
(An Exploration Stage Company)

STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE PERIOD FROM INCEPTION (OCTOBER 19, 2004) TO DECEMBER 31, 2011  
(Audited)

Common Stock