

GROPETRO RESOURCES COMPANY

*Consolidated Financial Statements
For the Three Months Ended
March 31, 2006 and 2005 (Unaudited)
(US\$)*

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GEOPETRO RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS
(Prepared by Management)

ASSETS

	March 31 2006	December 31, 2005
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	\$ 1,191,534	\$ 914,826
Cash -- deposit in trust	10,867,849	-
Restricted cash	2,000,075	-
Accounts receivable -- oil and gas sales	458,518	691,564
Accounts receivable -- other	2,237	8,392
Prepaid expenses	195,545	104,111
Total current assets	14,715,758	1,718,893
Oil and Gas Properties, at cost (full cost method):		
Unevaluated properties	4,155,154	3,636,504
Evaluated properties	33,751,551	27,846,543
Less—accumulated depletion and impairments	(9,531,459)	(9,130,869)
Net oil and gas properties	28,375,246	22,352,178
Furniture, Fixtures and Equipment, at cost, net of depreciation	51,408	56,013
Other Assets -- deposits and other noncurrent assets	6,583	6,583
Deferred Offering Costs	-	881,159
Total Assets	\$ 43,148,995	\$ 25,014,826

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Trade payables	\$ 5,057,888	\$ 1,928,169
Short term notes payable	823,008	-
Interest payable	13,151	-
Dividends payable	130,537	133,438
Production taxes payable	102,611	310,186
Other taxes payable	3,694	24,766
Royalty owners payable	775,968	865,244
Net profits interest payable	221,708	312,663
Total current liabilities	7,128,565	3,574,466

See accompanying notes to these consolidated financial statements.

GEOPETRO RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS
(Prepared by Management)
(continued)

	March 31 2006 (Unaudited)	December 31, 2005
Asset Retirement Obligations	27,125	26,641
Commitments and Contingencies (Note 7)		
Shareholders' Equity:		
Series A preferred stock, no par value; 1,000,000 shares authorized 0 shares after conversion on March 31, 2006 and 1,000,000 shares issued and outstanding at December 31, 2005, respectively	-	674,425
Series AA preferred stock, no par value; 5,000,000 shares authorized 1,890,710 shares issued and outstanding at March 31, 2006, and December 31, 2005, respectively. Liquidation value is \$6,748,022, and \$6,750,923 at March 31, 2006, and December 31, 2005, respectively	5,924,068	5,924,068
Common stock, no par value; 100,000,000 shares authorized 27,348,758 and 21,171,923 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively	39,943,266	24,815,184
Additional paid-in capital	733,662	534,656
Treasury stock, at cost; 1,257,043 shares held at March 31, 2006 and December 31, 2005, respectively	(1,152,435)	(1,152,435)
Accumulated deficit	(9,455,256)	(9,382,179)
Total shareholders' equity	35,993,305	21,413,719
Total Liabilities and Shareholders' Equity	\$ 43,148,995	\$ 25,014,826

Approved by the Board

(signed) Stuart Doshi

Stuart Doshi, Director, Chief Executive Officer and President

(signed) J. Chris Steinhauser

J. Chris Steinhauser, Director, Chief Financial Officer

See accompanying notes to these consolidated financial statements.

GEOPETRO RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
(Prepared by Management)

	Three Months Ended March 31 2006 <u>(Unaudited)</u>	Three Months Ended March 31 2005 <u>(Unaudited)</u>
Revenues		
Oil and gas sales	\$ 1,498,453	\$ 1,588,204
Costs and expenses:		
Lease operating expense	266,223	210,171
General and administrative	548,864	442,968
Net profits interest	158,603	177,288
Depreciation and depletion expense	405,197	517,754
Total costs and expenses	<u>1,378,887</u>	<u>1,348,181</u>
Income from operations	<u>119,566</u>	<u>240,023</u>
Other Income and (Expense):		
Interest expense	(48,549)	(97,155)
Interest income	434	208
Total other expense	<u>(48,115)</u>	<u>(96,947)</u>
Net Income Before Taxes	71,451	143,076
Income tax expense	<u>(13,991)</u>	<u>-</u>
Net Income After Taxes	57,460	143,076
Preferred stock dividend	(130,537)	(130,533)
Net Income (Loss) Available to Common Shareholders	<u>\$ (73,077)</u>	<u>\$ 12,543</u>
Earnings (Loss) per Share:		
Basic	\$ (0.00)	\$ 0.00
Diluted	\$ (0.00)	\$ 0.00
Weighted Average Number of Common Shares Outstanding:		
Basic	21,839,538	20,201,322
Diluted	21,839,538	24,103,519

See accompanying notes to these consolidated financial statements.

GEOPETRO RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Prepared by Management)

	Three Months Ended March 31 2006	Three Months Ended March 31 2005
	(Unaudited)	(Unaudited)
Cash Flows From Operating Activities:		
Net income	\$ 57,460	\$ 143,076
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and depletion	405,197	517,754
Stock compensation expense	16,616	-
Non-cash interest expense	35,398	-
Asset retirement obligations	484	-
Changes in operating assets and liabilities:		
(Increase) decrease in deposit in trust	(10,867,849)	-
(Increase) decrease in restricted cash	(2,000,075)	-
(Increase) decrease in accounts receivable	233,045	(301,900)
(Increase) decrease in other receivables	6,154	(31,200)
(Increase) decrease in prepaid expenses	(91,433)	2,795
Deposits and other noncurrent assets	-	(794)
Increase (decrease) in trade payables	3,129,718	(1,075,560)
Increase (decrease) in interest payable	13,151	(72,039)
Increase (decrease) in dividends payable	(2,901)	(2,540)
Increase (decrease) in production taxes payable	(207,574)	(253,485)
Increase (decrease) in other taxes payable	(21,072)	(46,288)
Increase in royalty owners payable	(89,276)	172,744
Increase in net profit interest payable	(90,955)	2,599
Net cash used in operating activities	\$ (9,473,912)	\$ (944,838)
Cash Flows from Investing Activities:		
Oil and gas property expenditures	(6,423,659)	(93,352)
Acquisition of furniture, fixtures & equipment	-	(735)
Net cash used in investing activities	(6,423,659)	(94,087)

See accompanying notes to these consolidated financial statements.

GEOPETRO RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Prepared by Management)

(continued)

	Three Months Ended March 31 2006	Three Months Ended March 31 2005
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Cash Flows from Financing Activities:		
Proceeds from sale of common shares, option and warrant exercises, net	14,453,657	3,158,706
Payments of preferred dividends	(130,537)	(130,533)
Proceeds from promissory notes, net	1,000,000	-
Payments of loan fee	(30,000)	-
Repayments of promissory notes	-	(802,487)
Deferred offering costs	881,159	(60,566)
Net cash provided by financing activities	<u>16,174,279</u>	<u>2,165,120</u>
Net Increase in Cash and Cash Equivalents:	<u>276,708</u>	<u>1,126,195</u>
Cash and Cash Equivalents:		
Beginning of period	914,826	1,010,660
End of period	<u>\$ 1,191,534</u>	<u>\$ 2,136,855</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 158,376</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

1. BASIS OF PRESENTATION:

These unaudited interim consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements. The significant policies and methods of computation follow that of the most recently reported annual consolidated financial statements, unless otherwise noted below. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the entire 2006 fiscal year. The disclosures provided below are incremental to those included with the annual audited consolidated financial statements. All amounts are shown in U.S. dollars unless otherwise noted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Use of Estimates and Significant Estimates — Certain amounts in GeoPetro's financial statements are based upon significant estimates, including oil and gas reserve quantities which form the basis for the calculation of depreciation, depletion, amortization and impairment of oil and gas properties. These are based on management's best estimates and judgments. These estimates may be adjusted as more information becomes available, and any adjustment could be significant. The impact of any change is included in the determination of earnings in the period in which the change in estimate is identified.

Annual Audited Financial Statements — The accounting policies used in these financial statements are consistent with those used in GeoPetro's annual audited financial statements except as discussed herein regarding share based compensation.

Restricted Cash — Represents proceeds from issuance of flow-through shares which must be expended toward Canadian exploration expense as defined in subsection 66.1(6) of the Tax Act.

Cash – Deposit in Trust – Represents net proceeds from the issuance of common stock on March 30, 2006 which were received into the Company's cash accounts on April 3, 2006.

Asset Retirement Obligation — In accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("SFAS 143"), the fair value of an asset retirement cost, and corresponding liability, should be recorded as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. GeoPetro recorded an asset retirement obligation to reflect GeoPetro's legal obligations related to future plugging and abandonment of its oil and gas wells. GeoPetro estimated the expected cash flow associated with the obligation and discounted the amount using a credit-adjusted, risk-free interest rate. At least annually, GeoPetro reassesses the obligation to determine whether a change in the estimated obligation is necessary. GeoPetro evaluates whether there are indicators that suggest the estimated cash flows underlying the obligation have materially changed. Should those indicators suggest the estimated obligation has materially changed, GeoPetro will accordingly update its assessment.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

	<u>Three months ended</u>	
	<u>March 31,</u> 2006	<u>March 31,</u> 2005
Asset retirement obligations, beginning of period	\$ 26,641	\$ 24,705
Liabilities incurred	-	-
Accretion expense	484	-
Revisions in estimated cash flows	-	-
Asset retirement obligations, end of period	<u>\$ 27,125</u>	<u>\$ 24,705</u>

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

The adoption of SFAS 123(R) resulted in stock compensation expense for the quarterly period ended March 31, 2006 of \$16,616 to income from continuing operations and income before income taxes, of which the entire amount was recorded to general and administrative expenses. This expense had an immaterial impact on basic and diluted earnings per share for the quarter. The Company did not recognize a tax benefit from the stock compensation expense because the Company considers it is more likely than not that the related deferred tax assets, which have been reduced by a full valuation allowance, will not be realized.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2003 and 2005: risk-free, weighted-average interest rates ranging from 2.52 to 3.75 percent, expected dividend yield of 0 percent, expected life of 5 years from the date of grant, and expected volatility of 10 and 25 percent.

For the quarterly period ended March 31, 2005, the Company applied the intrinsic value method of accounting for stock options as prescribed by APB 25. Since all options vesting during the quarterly period ended March 31, 2005 had an exercise price equal to or exceeding the closing market price of the underlying common stock on the grant date, no compensation expense was recognized. If compensation expense had been recognized based on the estimated fair value of each option granted in accordance with the provisions of SFAS 123 as amended by Statement of

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

Financial Accounting Standard 148, our net loss and net loss per share would have been reduced to the following pro-forma amounts:

	<u>For the Three Months Ended March 31, 2005</u>
Net Income (Loss) Available to Common Shareholders — as reported.....	\$12,543
Compensation	<u>(15,914)</u>
Net Income (Loss) Available to Common Shareholders — Pro Forma	<u>\$(3,371)</u>
Basic Income Per Share – as reported.	<u>\$0.00</u>
Diluted Loss Per Share – as adjusted..	<u>\$(0.00)</u>

In accordance with the modified prospective transition method of SFAS 123(R), the prior comparative quarterly results have not been restated.

The options outstanding as of March 31, 2006 have the following contractual lives:

Number of Options Outstanding	Number Exercisable	Exercise Prices	Weighted Average Remaining Contractual Life
750,000	750,000	0.50	2.08
45,250	45,250	1.25	0.92
1,290,000	1,290,000	2.00	1.75
1,750,000	991,667	2.10	7.18
20,000	20,000	3.00	3.69
10,000	2,500	4.25	3.76
<u>10,000</u>	<u>1,500</u>	6.25	4.20
<u>3,875,250</u>	<u>3,100,917</u>		

As of March 31, 2006, there are 3,100,917 options which are exercisable. The remaining 774,333 options will become exercisable ratably over the next four years.

Income (Loss) Per Common Share — Basic earnings per share excludes dilution and is calculated by dividing net income or loss by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared from the earnings of the entity. Potential common

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

shares for the three months ended March 31, 2006 were excluded from the earnings per share computation because the Company incurred a net loss and were anti-dilutive. At March 31, 2005, 292,709 outstanding warrants and 10,000 outstanding options to purchase common stock were not included in the diluted EPS calculation because the warrants' and options' exercise prices were greater than the average market price of the common shares. 1,890,710 shares of Series AA Stock were not included in the diluted EPS calculation at March 31, 2006 and 2005 because they were anti-dilutive.

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2006</u>	<u>2005</u>
Net Income (Loss) and Adjustments:		
Net Income (Loss) Available to Common Shareholders	\$ (73,077)	\$ 12,543
Adjustments	<u>Anti-dilutive</u>	<u>Anti-dilutive</u>
Net Earnings (Loss) for Diluted Calculation	<u>\$ (73,077)</u>	<u>\$ 12,543</u>
Shares:		
Weighted Average Shares Outstanding	21,839,538	20,201,322
Outstanding Options	Anti-dilutive	2,426,647
Series A Preferred Stock - after Conversion	-	-
Series A Preferred Stock - Conversion	Anti-dilutive	1,000,000
Outstanding Warrants	<u>Anti-dilutive</u>	<u>475,550</u>
Average Number of Shares for Diluted Calculation	<u>21,839,538</u>	<u>24,103,519</u>
Diluted EPS	<u>N/A</u>	<u>\$ 0.00</u>

3. SHORT-TERM DEBT:

The Company issued a \$1,000,000 short term promissory note on January 31, 2006 with a maturity date of January 31, 2007. The note may be repaid at any time without penalty. In the event the note is not repaid by the maturity date, the Company has agreed to dedicate 5% of the net cash flow from the Madisonville Project in Texas toward the repayment of the note and any accrued interest thereon. In connection with the note, the Company paid a loan origination fee of \$30,000 and granted a three-year exercisable warrant to purchase 150,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$182,390, as well as the \$30,000 loan origination fee, was recorded as a debt discount and is being amortized over the life of the promissory note. As of March 31, 2006, the unamortized debt discount was \$176,992.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

4. RELATED PARTY TRANSACTIONS:

There were no material changes in related party transactions from those disclosed in the audited annual consolidated financial statements for the year ended December 31, 2005, except:

David G. Anderson became a Director upon completion of GeoPetro’s initial public offering in Canada. Mr. Anderson is the Senior Vice President and a director of Dundee Securities Corporation, the lead underwriter in respect of the initial public offering. The terms of the initial public offering were made through negotiations primarily between the Company and Dundee Securities Corporation as lead underwriter. Mr. Anderson had some involvement in such negotiations solely in his capacity as a director and officer of Dundee Securities Corporation. Dundee Securities Corporation received its share of the underwriters’ fee paid in connection with the Offering.

5. SHAREHOLDERS’ EQUITY:

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

During the three months ended March 31, 2006, the following issuances of common stock were made:

	Preferred Stock		Common Stock	
	Series A			
	Shares	Amount	Shares	Amount
Balances, December 3, 2005	1,000,000	\$ 674,425	21,171,923	\$ 24,815,184
Issuance of common stock for cash, net (a) (b)	-	-	5,176,835	14,453,657
Series A preferred stock conversion (b)	(1,000,000)	(674,425)	1,000,000	674,425
Balances, March 31, 2006 (unaudited)	-	\$ -	27,348,758	\$ 39,943,266

(a) *Private Placements of Common Stock*— During the three months ended March 31, 2006, GeoPetro has issued 927,314 shares of its common stock for cash proceeds of \$3,245,600 in connection with private placements to accredited investors.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

(b) *Initial Public Offering* — On March 30, 2006, the Company completed an initial public offering pursuant to a final prospectus under the securities laws of each of the provinces of Canada, which consisted of 3,730,021 common shares from the Company’s treasury at an issue price of \$3.50 per common share and 519,500 common shares issued on a “flow-through” basis under the *Income Tax Act* (Canada) at an issue price of \$3.85 per common shares for aggregate gross proceeds of \$15,055,149. The Company intends to use the net proceeds of the offering to fund development drilling of proven natural gas reserves associated with the Madisonville Project and to conduct exploration and appraisal activities on the Company’s other projects in the United States, Canada and Indonesia. Upon completion of the initial public offering, all of the 1,000,000 shares of Series A Stock automatically converted into a like number of common shares.

6. COMMON STOCK OPTIONS:

There were no material changes to common stock options from those disclosed in the audited annual consolidated financial statements for the year ended December 31, 2005 except as disclosed in Note 2 herein regarding the accounting treatment of share based compensation.

7. COMMITMENTS AND CONTINGENCIES:

There were no material changes to commitments and contingencies from those disclosed in the audited annual consolidated financial statements for the year ended December 31, 2005 except as disclosed in Note 3 herein.

8. SUBSEQUENT EVENTS:

Issuance of Stock Options — Effective April 14, 2006, Company issued new common stock options to two new directors as follows:

<u># Options</u>	<u>Date of Issuance</u>	<u>Date of Expiration</u>	<u>Vesting Schedule</u>	<u>Exercise Price</u>
75,000	4/14/2006	4/14/2011	5 yr. vesting period @ 20%/year	\$ 3.85
75,000	4/14/2006	4/14/2011	5 yr. vesting period @ 20%/year	\$ 3.85

Extension of Stock Options and Warrants --- The expiration dates of certain related party common stock option and warrant issuances were extended on April 21, 2006 as follows:

<u>Description</u>	<u># Shares of Common Stock Underlying Option or Warrant</u>	<u>Exercise price Per Share</u>	<u>Previous Expiration Date</u>	<u>Revised Expiration Date</u>
Common Stock Option	750,000	\$ 0.50	4/30/2006	4/30/2008
Common Stock Warrant	150,000	\$ 2.00	6/18/2006	6/30/2007
Common Stock Warrant	33,333	\$ 3.00	6/18/2006	4/30/2008

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

9. CANADIAN ACCOUNTING PRINCIPLES AND REPORTING:

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") which, in most respects, conform to accounting principles generally accepted in Canada ("Canadian GAAP"). Significant differences between U.S. and Canadian GAAP are described in this note.

Full Cost Accounting — In accordance with Canadian GAAP, petroleum and natural gas properties are evaluated at least annually to determine whether the carrying amount in each cost center, on a country by country basis, is recoverable and that it does not exceed the fair value of the properties in the cost center.

The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves plus the lower of cost and market of unproved properties exceeds the carrying amount of the cost center. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost center exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties that contain no probable reserves. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate and are on a before tax basis. Under U.S. GAAP, a similar ceiling test calculation is performed with the exception that future net operating revenues are discounted at 10 percent and are on an after tax basis.

Under Canadian GAAP, depletion charges are calculated by reference to proved reserves estimated using future prices and costs. Under U.S. GAAP, depletion charges are calculated by reference to proved reserves estimated using constant prices.

Effective January 1, 2004, the Canadian Institute of Chartered Accountants ("CICA") amended the Full Cost Accounting Guideline. Prior to 2004, under Canadian GAAP, the prices and costs were based upon the period end prices and costs were not discounted. Estimated future general and administrative costs, financing charges and income taxes were deducted from the estimated future cash flows. There were no charges to net income (loss), oil and gas properties, or any other reported amounts in the consolidated financial statements as a result of adopting the amended standard.

There is no difference between U.S. GAAP and Canadian GAAP on the consolidated financial statements of GeoPetro as a result of the differing ceiling test calculations and depletion test calculations.

Income Taxes — Under Canadian GAAP, substantially enacted tax rates are used to calculate future taxes, whereas under U.S. GAAP, enacted tax rates are used. There is no difference between U.S. GAAP and Canadian GAAP on the consolidated financial statements as a result of this difference.

Canadian GAAP required GeoPetro to record potential future taxes using the deferral method prior to January 1, 2002. However, the Canadian standard is now similar to U.S. GAAP. Upon

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

implementation of the new Canadian standard, there was no impact on the consolidated financial statements of GeoPetro and there was no difference between U.S. GAAP and Canadian GAAP on the consolidated financial statements as a result of this difference.

Asset Retirement Obligations — On January 1, 2003, GeoPetro adopted U.S. SFAS No. 143, effective for fiscal periods beginning on or after January 1, 2003. This standard is equivalent to the CICA new standard on Asset Retirement Obligations. The Canadian standard is similar to U.S. GAAP except that additional disclosures are required as follows:

	<u>Three months ended</u>	
	<u>March 31,</u> 2006	<u>March 31,</u> 2005
Asset retirement obligations, beginning of period	\$ 26,641	\$ 24,705
Liabilities incurred	-	-
Accretion expense	484	-
Revisions in estimated cash flows	-	-
Asset retirement obligations, end of period	<u>\$ 27,125</u>	<u>\$ 24,705</u>

The total estimated, undiscounted cash flows required to settle the obligations at March 31, 2006 is \$27,125 (March 31, 2005 — \$24,705). These costs have been discounted using a credit-adjusted risk free rate of 10.0%. The Company expects these obligations to be settled, on average, in 7 years, the majority of which is expected to be incurred in 2013. At March 31, 2006, no funds have been set aside to settle these obligations.

Stock-Based Compensation — Effective January 1, 2004, GeoPetro retroactively adopted the new Canadian standard with respect to stock-based compensation for employees and directors for purposes of this footnote disclosure. Under the amended standard, GeoPetro must account for all stock options issued at fair value and are expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus is recorded as share capital. Previously, Canadian GAAP allowed companies to account for stock-based compensation for employees and directors using the intrinsic value method, with pro forma disclosure reflecting the impact of the fair value method being used.

Under the transitional provisions of the standard, the Company has elected to apply the amended standard retroactively, with restatement to all stock options issued after the effective date of implementation being January 1, 2002. The fair value of the options issued by GeoPetro during 2003 was estimated under Canadian GAAP using the same assumptions as under U.S. GAAP, as disclosed in the audited annual consolidated financial statements for the year ended December 31, 2005.

As discussed in Note 2, the company began expensing share based compensation for U.S. GAAP purposes effective January 1, 2006. Accordingly, there was no difference between U.S. GAAP and

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

Canadian GAAP on the consolidated financial statements for the three months ended March 31, 2006.

The effect on the consolidated statements of operations for the three months ended March 31, 2005 as a result of this change in policy under Canadian GAAP is as follows:

	<u>For the Three Months Ended March 31, 2005</u>
Net Income (Loss) Available to Common Shareholders — as reported.....	\$12,543
Compensation	<u>(15,914)</u>
Net Income (Loss) Available to Common Shareholders — Canadian GAAP....	<u>\$(3,371)</u>
Basic Income (Loss) Per Share — Canadian GAAP	<u>\$0.00</u>
Diluted Loss Per Share — Canadian GAAP	<u>\$(0.00)</u>

The only effect on the consolidated balance sheets as at March 31, 2005 as a result of this change in policy under Canadian GAAP is as follows:

Canadian Consolidated Balance Sheets

	<u>March 31, 2005</u>	
	<u>As Reported</u>	<u>Canadian GAAP</u>
Stockholders' Equity		
Contributed surplus	\$—	\$174,064
Accumulated deficit.....	\$(11,480,710)	\$(11,654,774)